

Annual Project Report
United Nations Development Programme
Afghanistan

Making Budget and Aid Work Project (MBAWP)
January- December 2010



Development Cooperation Dialogue – Held Between GoIRA and Development Partners

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CPAP Component: Governance, Rule of Law and Human Rights

ANDS Component: Good Governance

Total Budget: US \$ 9,000,000

Responsible Agency: UNDP/Ministry of Finance

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List of Acronyms	4
Executive Summary	5
I. Context	5
II. Results and Impact	7
Component 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	7
Component 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	26
Component 3: Capacity Development (Implementation of Exit Strategy to develop sustainable capacity within the GoA)	26
III. Implementation Arrangements.....	32
IV. Challenges/Risks/Issues.....	34
V. Lessons Learnt	36
VI. Future Plan.....	36
VII. Financial Information	32

Annexes:

1. Detailed reporting on results and impact
2. Risks Log
3. Issue Log

List of Acronyms

ACU	Aid Coordination Unit
AFMIS	Afghanistan Financial Management Information System
AMD	Aid Management Directorate
ANDS	Afghanistan National Development Strategy
AWP	Annual Work Plan
BC1	Budget Circular No 1
BC2	Budget Circular No 2
BEU	Budget Execution Unit
BIRU	Budget Integration and Reform Unit
CoA	Charts of Account
CPAP	Country Programme Action Plan
DAD	Development Assistance Database
DFID	Department for International Development (UK)
DFR	Donor Financial Review
FPU	Fiscal Policy Unit
GoA	Government of Afghanistan
HLCAE	High Level Committee on Aid Effectiveness
IFIs	International Financial Institutions
IMCs	Inter Ministerial Committees
IMF	International Monetary Fund
LM	Line Ministry
MBAW	Making Budgets & Aid Work
MCP	Management Capacity Programme
MIS	Management Information System
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTFF	Medium Term Fiscal Framework
NDF	National Development Framework
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
PFEML	Public Finance & Expenditure Management Law
PRGF	Poverty Reduction Growth Facility
PRT	Provincial Reconstruction Team
SBPS	State Budget Planning System
TA	Technical Assistance
TCC	Technical Coordination Committee
UNDP	United Nations Development Programme
UNDAF	United Nation Development Assistance Framework
UNAMA	United Nations Assistance Mission to Afghanistan
US	United States of America
WB	World Bank

Executive Summary

This annual report provides critical information on activities undertaken throughout 2010 to assess MBAW's achievements, mostly in terms of outputs, directly related to the budget process and under the guise of the CPAP, the ANDS and the UNDAF.

The critical outputs of the project relate to:

- *Strengthening budget policy aligned with national development strategy*
- *Strengthening budget formulation process*
- *Strengthening budget execution process*
- *Aligning of and improved coordination of external funding in line with Paris Declaration and ANDS*
- *Strengthening budget and fiscal policy monitoring and reporting*
- *Sustainable institutional capacity building and retention in the Public Finance Sector*

This report presents an assessment of the implementation process of the project, focusing on a few critical issues. It analyzes the lessons learned and recommends priority actions for the future, considered essential both for the project's success and improved budget formulation and implementation process.

Activities are firmly situated under **ANDS Pillar 2, Governance, Rule of Law and Human Rights**. Public Finance management activities respond directly to governance issues and, within the Ministry of Finance portfolio, activities are now outlined in a road map with special focus on Program Budgeting. At the January 2010 International Conference on Afghanistan, the Afghan Government requested its development partners to increase their flow of development assistance by 50%, through the Afghan government's central budget, over the next two years. As a confidence earning measure from the international community, the Afghan government committed to ensure effective and efficient execution of the resources. To further strengthen governance and rule of law components, the GoIRA committed to undertaking concrete measures for strengthening its Public Financial Management systems; fighting corruption, enhancing budget performances in terms of faster execution and delivery of outputs, and developing a financing strategy to promote delivery capacity in these critical areas.

Addressing low **budget execution** is a critical task for the Ministry of Finance. Under its mandate to manage and execute the budget in order to support governance and rule of law, proposals to improve the system of budget carry forwards, improvements in charts of accounts and efficient supplementary budget process are included in this section of the report. Similarly, MBAW provided support to the government's fiscal policy reforms by focusing on **fiscal sustainability**. This was achieved by signing a debt relief program of USD 1.6 billion and development of *Memorandum of Economic and Financial Policy* document (MEFP). A new civil service reform program and its related costing were completed. Martyrs and Disabled Pension Law was reviewed with an eye to the fiscal sustainability issue. Other fiscal pressures from security spending, pay and grade scaling, teachers' salary expenditure were reviewed. Providing support to development programming involves consultation and coordination at the national and sub-national levels. At these consultations, the budget is discussed to meet the needs of provincial and district requirements, in order to **strengthen the budget formulation** process.

Finally, to improve governance, the GoIRA has been working on improving accountability and transparency in budget operations. In accordance with the Public Financial Management Roadmap, Afghanistan has been working towards improving its rating in the Open Budget Index and with remarkable results- once at 8% (2008), Afghanistan now boasts an Open Budget Index rate of 21%, and is well on its way to achieving the 30% benchmark.

Important human rights issues are addressed in achievements in **pro-poor budgeting** and **gender responsive budgeting**, each of which is integral to the Public Financial Management Roadmap. Briefly, outcomes under these two activities focus on the need to address poverty at the line ministry level by allocating funds to directly impact poor segments of society. Similarly, gender equity is addressed by allocating government resources in accordance with disaggregated needs of men and women in society. Outcomes are directly aligned with the UN's Gender Equity Policy, and clearly respond to Pillar 2 requirements.

In order to achieve ANDS targets, MBAW is providing oversight to **coordinate external aid dollars** with national priorities; indeed, misalignment of externally managed aid with the national priorities makes many of the externally financed development projects unsustainable. The success of programs relying on development funding appropriations is threatened and project beneficiaries suffer when dollars are not channeled through the national budget; taking the ownership of the development process out of the hands of Afghan people is detrimental to the poverty reduction agenda.

Building institutional capacity is an important element of the UNDAF and ANDS targets. MBAW provides oversight not only to various programme areas described in this report, but also focuses attention on providing opportunities to staff to stand alone and proactively abandon dependency on external help in the future. Sustainable institutional capacity building involves the retention of capacity within the public finance sector; organizational restructuring has been undertaken within the Budget Department to this end. Extensive capacity building programs have been initiated and implemented, and numerous manuals have been developed.

I. Context

Making Budgets & Aid Work (MBAW) project provides the essential support to the Budget Department of the Ministry of Finance to strengthen budget planning, implementation and monitoring processes. In addition, the project promotes the effective use of the national budget as a tool for coordination of international development assistance to the government of Afghanistan through implementing various activities that build on the outputs and outcomes of the project in line with the ANDS and UNDAF.

Under the UNDAF framework, MBAW contributes to Good Governance, Peace and Stability. The project contributes to this end through a series of capacity development projects focusing on budgeting, aid coordination for assisting the implementation of the Afghanistan National Development Strategy (ANDS).

MBAW regards the National Budget as an agent through which a number of universal development principles can be promulgated, such as: fiscal discipline and sustainability, national security, provincial and social equity, poverty reduction, increased productivity and growth of the private sector, gender equality, poppy eradication and the effective delivery of public services.

The Afghanistan National Development Strategy (ANDS) which serves as the Government Strategy for Security, Good Governance, Economic Growth and Poverty Reduction underlines the need to strengthen the crucial role of developing a national budget as the government policy making instrument essential for achieving planned national development priorities.

The project aims at strengthening the National Budget processes as a comprehensive policy and decision making mechanism for the Government of Afghanistan to be in a position to follow good macroeconomic management and promote efficient allocation of the domestic resources as well as the International Development Assistance.

In order to better link ANDS 's strategic objectives and policy priorities with the annual budget and prioritize the available funds where they are most needed, in 1385 the Government of Afghanistan decided to introduce programme budgeting. The importance of programme budget implementation has also been recognized by the International Monetary Fund (IMF), with the introduction of

programme budget being one of the key benchmarks for the IMF's Poverty Reduction Growth Facility (PRGF) programme. Provincial budgeting was also introduced in early 1385 as part of the budget integration and reform initiatives made by the Ministry of Finance since it is essential to ensure that provincial inputs are facilitated and included in the budget process, an issue often debated by the Parliamentarians.

Improving coordination and effectiveness of development assistance in line with the ANDS priorities and the principles of the Paris Declaration is a further aim of the project. To this end, the project continued to support improved coordination of donor activities through a number of high-level coordination mechanisms and other aid monitoring instruments.

The project constantly seeks to provide technical guidance and information to the budget, finance and planning directorates of the line ministries as well as other institutions. However, there are still capacity constraints which require further work, particularly to ensure that capabilities and skills of the national staff are further enhanced and that the exit strategy is adhered to and a mechanism is established that will facilitate the transfer of knowledge and experience to the civil servants in the Ministry of Finance and to other line ministries where the project is rigorously working.

II. Results and Impact

The National budget serves as one of the primary policy instruments of the government of Afghanistan through provision of comprehensive financial support to the implementation of the nation's development strategy and its objectives. The project, appropriately titled "Making Budget work", provides support to the national budget process.

This report reviews the activities implemented under the project and the relevant **outputs** contributing to an improved budgetary process which will better serve the nation's financial needs for effective development.

Component 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)

(1.1) Strengthened Budget Policy and Planning Processes linked to ANDS priorities

Public Financial Management (PFM) Road Map

At the January 2010 Conference, the Afghan Government requested its development partners to increase their flow of development assistance by 50%, through the Afghan government's central budget, over the next two years. As a confidence earning measure from the international community, the Afghan government committed to ensure effective and efficient execution of the resources. GoA commitments included undertaking concrete measures for strengthening its Public Financial Management systems; fighting corruption; enhancing budget performances in terms of faster execution and delivery of outputs; and developing a financing strategy to promote delivery capacity in these critical areas.

As per such commitments, a detailed action plan for strengthened Public Finance Management was developed and a road map was presented at the Kabul Conference, in July 2010. The PFM Roadmap development process was led by H.E. Deputy Minister for Finance, Dr. Mustafa Mastoor (MoF) with the technical support of the Budget Department and Fiscal Policy Unit and other relevant departments of the Ministry of Finance.

Expected Results of the PFM Road Map Implementation:

- A Strengthened Budget system promoting effective delivery of key priority outcomes;
- Improved Budget Execution; and
- Increased Accountability and Transparency

The PFM Roadmap implementation and achievement of the above results demand that the capacity of the line ministries be effectively enhanced.

Indicators to Measure Results:

To measure progress towards the achievement of the above results, the GoA established certain indicators:

- Strengthened Medium-term Fiscal Framework (MTFF) to better forecast, plan and prioritize both expenditures and domestic revenues, as factors that would help attain fiscal sustainability.
- Increased budget execution by 10-20% annually over the medium-term (taking the amount of executed budget for the previous year as the baseline) through focused and strengthened capacity development in planning and procurement practices at the provincial level and in line ministries.
- Improved Rating in the Open Budget Index.

A preliminary assessment (through the use of the indicators) reflects that some progress has been recorded in strengthening of MTFF. Open Budget Index rating has, in effect, improved to 30%, in 1390, as a result of enhanced communication across Government bodies, as well as with civil society organizations, increased resources for both internal and external audit, and extended use of financial reporting through AFMIS.

Implementation and Action Plan: PFM Roadmap sets the PFM reform objectives for MoF and all related financial institutions. Budget Formulation, Budget Execution, Fiscal Sustainability and strengthened and effective aid management are considered priorities.

The implementation of the Roadmap requires activities to be pursued, with targeted timelines within which to complete the actions. The activities as outlined below establish the short to medium term actions, with the associated timelines.

Budget Statement: The statement includes an outlook of the Afghan government fiscal economic framework; ANDS sectoral scenario analysis and sectoral achievements indicating progress towards Afghanistan national development sector strategy outputs and outcomes; update and reports on the new budget reform processes (e.g. Program Budgeting). All reports are to be prepared twice a year in 2010 for 1389/90 budgets.

Pro-poor Budgeting: Reducing poverty is one of the objectives of the ANDS which requires specific budgeting to positively impact on the poor segments of the society and poverty reduction. The MTBF for 1390 budget includes explanations on “*pro-poor*” spending initiatives. The Budget Circular No 1 (National Budget Formulation Guidelines/instructions), its forms and checklists were revised in 2010 to integrate reporting on Pro-poor spending of the line ministries and improving integration of the most priority poverty reduction policies and programs within the budget proposals. This would enable MoF to provide comprehensive data on pro-poor allocations and spending within the 1390 and future budgets in response to the need for information provision for social and pro-poor spending to the IMF (HIPC); and MDG status and ANDS reporting

Program Budgeting

Program Budgeting Reform is a useful instrument to link the budget with the national policy priorities. It helps link policies set out in the Afghanistan National Development Strategy (ANDS) to the budget formulation and operations of the government.

Since this reform requirement replaces aspects of traditional budgeting, major alterations had to be brought about in the structure of the budgetary units for implementation of program budgeting methodology. And this process required policy makers’ support.

Endorsement Letters introducing the Program Budgeting Strategy Paper to the Finance and Planning departments of the budgetary units were prepared and approved by the Council of ministers. The strategy paper includes the basic concept of program budgeting and the Integration Instructions for Operating and Development Budgets. The process of review and approval helped clarify the requirements for integration of the operation and development budgets, as an effective step for linking strategy with budget and improving reporting efficiency throughout the GoA budgetary units.

The Program Budget handbook is comprised of four main chapters. The first two are finalized and will be distributed to the line ministries. The new handbook will primarily introduce the budgeting concept linking it with program budgeting which is expected to help the line ministries to appropriately estimate and cost their project needs, in terms of substance items and operational budgets.

National Budget Planning (1389/90)

Budget Circulars were revised in 2010; with the objective of aligning budgetary resources with line ministries' ANDS related sector strategies' priority results to facilitate service delivery in all sectors in priority areas. The process involved a thorough consultative and coordinated exercise.

The forms for Budget Circular 1 that asks all budgetary units to identify their priorities, projects, the related outputs and indicative costs for 1390-92 was developed, inclusive of detailed instructions for submission.

Integration of the budgets of municipalities and state owned enterprises into the national budget planning process was also implemented in 2010. Collections of municipal historic data projections, including revenue and expenditure, and incorporation of the analyzed data into the MTBF for ten largest municipalities were undertaken. These activities are now being integrated to IDLG action plans.

Developing improved forms and mechanisms for better data collection are on-going practices.

(a) Gender Responsive Budgeting (GRB)

One of the challenges GoA and, the Budget Department in particular, encounter is allocations required for and reporting on actual resources invested in gender programming. With the technical support from Gender Equality Project (UNDP), the *Gender Responsive Budgeting (GRB)* concept has been introduced to address these issues and achieve the outcomes which match the objectives of the government's national development strategy (ANDS); thereby, to implement the government's commitments to gender equality policy, as stated in the ANDS; and finally to translate such policy commitments into budgetary commitments

The **objectives** of gender responsive budgeting are:

- Allocation of government's resources taking into consideration the disaggregated needs of men and women in the society;
- Reflect a gender perspective in the budget that recognizes that women and girls are not in positions of equity with men and boys and that budget should be formulated to correct this inequity.

Thus, overall, the objectives are to deploy resources efficiently and effectively to meet the special needs of males and females and ensure equal distribution of resources between men and women mainly with the intent to reduce poverty of the beneficiaries.

To help planning a process to achieve the above objectives, a workshop was attended by all MBAW budget experts on how to integrate GRB in the expenditure planning process. The actions for gender integration process will proceed over the next few months. The resolve is to reflect in reality, gender sensitivity and programming as cross-cutting theme in the 1390 National Budget.

(b) Medium Term Fiscal Framework (MTFF)

MTFF, as an element of the 1389/90 budget formulation, was revised twice in 2010, once after the PRGF Program review by the IMF in the second quarter of 2010. The revisions are based on the country's changing macro-economic development indicators (i.e. increase in domestic revenues, GDP, etc.). The MTFF is approved by the council of ministers and the parliament.

(c) Medium Term Budget Framework (MTBF)

To further support the policy objectives of the Government, a more comprehensive *Medium Term Budget Framework (MTBF)* was developed with the technical support of SAB/ASI experts.

In general, the Medium Term Budget Framework (MTBF), as a pre-budget statement, is “an approach to budgeting which links the spending plans to the overall government objectives. MTBF is essentially a tool for ensuring medium-term fiscal sustainability of budget decisions, i.e. for setting budget priorities that can be funded from available resources. The purpose of MTBF, as pre-budget statement, is to deliver preliminary draft budget that contains assessment of existing budget policies and new funding priorities for the coming period. It sets initial budget ceilings for each budgetary unit based on which units can prepare detailed budget submission. The budget ceilings serve as the total level of expenditure for a budgetary unit and each budgetary unit has to develop its annual budget within the given ceilings”.

In brief, MTBF is an approach to budgeting that links the budget formulation process to government's development and policy objectives in the medium term. In addition, it promotes:

- Strengthened fiscal discipline, by creating an orderly framework for management of the annual budget over the medium term;
- Strengthened allocation of federal resources to the government's strategic priorities;
- Improved operational efficiency, by strengthening the capacity of federal line ministries to prepare and manage their budgets effectively.

MTBF comprises the following critical elements: A clear and reliable statement of macroeconomic developments; medium term fiscal strategy (revenues included); expenditure priorities; expenditure ceilings for individual line ministries for the medium term; and key dates for budgetary activities in the form of a budgetary calendar.

All of the above are expected to ensure macro-economic and fiscal stability and enable the government to align resources more effectively with the stated policy objectives.

(d) Budget Ceilings

Budget ceilings serve as the “total level of expenditure for a budgetary unit and each budgetary unit has to develop its annual budget within the given ceilings”.

A Budget ceiling paper has been developed and approved by the cabinet, as a policy document, parallel to MTBF. It includes detailed analysis of BC1 submissions including the estimated revenue. It presents ceiling calculation methodology to be used by MoF for 1390 budget.

Budget ceilings, both for Recurrent (Operational) and Development Budget that serve as the ultimate control document for budgetary units on what their expenditure levels should be are approved by the Budget Committee and Council of Ministers. The ceilings are arranged code-wise for the Operating Budget and as total for Development Budget. Budget ceilings are calculated using agreed approaches for baseline budgets and budgets for new spending initiatives. In addition calculations are done based on agreed principles that take into consideration historic execution rates of each line ministry and their capacity to implement the project.

Fiscal Sustainability

As a part of the government's fiscal policy reforms, a new Macroeconomic Coordination Working Group (WG) was established in 2010. The group aims to improve coordination between the Ministry of Finance and Da Afghanistan Bank in implementing economic policies. The WG developed a financial programming template which links all four sectors of the economy (i.e. Fiscal, Real, Monetary and External) and make estimates for the following years.

Fiscal Policy Unit had earlier prepared a *Memorandum of Economic and Financial Policy* document (MEFP) based on which Afghanistan signed a debt relief of USD 1.6 billion on March 18, 2010, with the Paris Club donors. MEFP analyzes the overall economic overview of the country and the factors that shape the macroeconomic indicators in the medium term. It summarizes the PRGF benchmarks for HIPC program to ensure writing off the previous loans of the Afghan government.

The new *P & G*, a government civil service reform process to be implemented across the government were reviewed as well and their revised costing for FY1389/90 was analyzed and adjusted accordingly. The working groups met regularly throughout 2010 to monitor the progress of the reform and provide a better outlook for the future years.

The draft of *Martyrs and Disabled Pension Law* was reviewed with an eye to the potential fiscal pressures on government's budget. The review summarizes that

“The new law is not fiscally sustainable given that the additional costs to the budget are estimated to be between three and four times the current budget funding. Spending on other Government priorities would have to be reduced in order to afford the costs of the new laws.

The current budget funding for the existing laws of Afs 1.6 billion represents 2.3% of domestic revenues in 1388 and 1389. In order to ensure the fiscal sustainability of the new laws it is recommended that the costs of the new laws should not be any more than around this percentage of domestic revenues in five years time.

As a percentage of domestic revenues, it is proposed that the total costs of the new laws should not cost more than 50% more than is currently the case. Given the current laws are estimated to cost 2.3% of domestic revenues in 1388 and 1389, it is suggested that the cost of the new laws should be limited to around 3.5% of domestic revenues in five years time.”

New fiscal pressures as part of the 1390 budget planning that includes security, Pay and Grade scaling and Teachers' salary expenditure were reviewed. Detailed costing exercise was undertaken for the Pay & Grading reform and security sector expenditure for the year 1390 through consultative processes engaging all relevant stakeholders. Security cost sustainability for Afghan National Police, mostly financed through UNDP LOTFA project, was reviewed. Concrete demands are made by Afghanistan's development partners for the Afghan government to take over the responsibility of some of the costs now borne by donors. Many policy options offering alternatives under various scenarios are being considered by MoF senior management seeking ways for GoA to take over the investment costs related to security.

In 2010, the following documents were reviewed that had fiscal implications and policy advisories providing options to the GoA :

- Pension law development
- Salary scale review for Ministry of Foreign Affairs' staff at Afghanistan embassies abroad
- Overtime payment rules and regulations

The overall objective was to enable the government to embrace fiscal and budgetary disciplines to avoid the negative impacts of policies resulting in loss of fiscal control and budgetary discipline. The advisories based on the reviews led the Ministry of Finance to avoid making commitments that would have had dismal fiscal and budgetary impacts undermining the practice of stabilizing fiscal sustainability.

Budget Calendar

The FY 1389/90 budget calendar was revised based on lessons learned from the past year for adherence to a more realistic budget process. The new timetable of the action plan especially addressed the challenges and issues encountered in 1388/89 budget formulation process.

The government of Afghanistan undertook a prioritization exercise of ANDS Sectors and identified a number of priority national programs. A number of cluster program coordination units were developed and made responsible for these national programs.

The national programs and cluster coordination concepts were presented at the Kabul conference in 2010. Originally, the development of these concepts and their presentation at the Kabul Conference in July 2010 were not aligned with the national budget formulation timetable. However, the National Budget Calendar was revised to integrate the national programs into the national budget process. Hence, the new priority programs, although not all of them fully developed yet, are included in the current budget documents. MTBF based on the national priorities, including the required budget ceilings for all budgetary units, was developed during the reporting period.

However, despite consistent effort to align the national budget with the ANDS priorities and sector strategy results, development of national programs for implementation across the country, external off-budget financing, not aligned with national priorities and programs, GoA is unable to prevent fragmentation of development financing and thus loss of country-wide development impact. These issues present significant challenges for the Afghan government.

1.1 Strengthened Budget Policy and Planning Processes linked to ANDS priorities

Activity Result	Description of results/achievement	Delivery
Improved Open Budget Index rating	Performance indicators demonstrate a strengthened MTF, as a result of enhanced communication across Government, increased resources available for internal and external audit, and extended use of financial reporting through AFMIS, all of which contribute to an improved Open Budget Index rating.	In progress
Integration of municipality and state-owned enterprise budgets into national budget	Municipal data projections recorded, and analysis and incorporation of data into the MTBF was undertaken for the ten largest municipalities. Activities are being integrated into IDLG action plans.	Delivered
Introduction of Gender Responsive Budgeting (GRB)	Introducing GRB into the budget addresses the issues and achieves the outcomes of the ANDS.	Delivered
A comprehensive MTBF developed	To support policy objectives, the MTBF links spending plans to overall government objectives by imposing budget ceilings and assessing existing and future budget policies.	Delivered
Memorandum of Economic and Financial Policy developed	The MEFP analyzes the overall economic overview of the country, and the factors that shape the macroeconomic indicators in the medium term. As a result, a debt-relief program worth USD1.6 billion was signed with Paris Club donors.	Delivered
Budget calendar revised	The revised budget calendar addresses challenges and issues encountered in previous budget years.	Delivered

(1.2) Strengthened Budget Formulation Processes

National Budget Planning

During the second year of ANDS implementation, the 1389 Budget was approved mid January, 2010 by the council of ministers. This national budget was prepared in a better form compared to previous years. The improved features are discussed below.

The second round of donors' financial review in November 2009, which was mainly planned as part of the 1389 budget formulation helped the GoA and its budgetary units to include the predicted grants and aid based on the commitments made by the international partners.

The 1389 budget approval by the Budget Committee was a participatory process, in which all the line ministries actively participated. The budget hearings were held early January 2010. Complete reviews of the development projects included in line ministry lists was an aspect of the budget formulation process that enabled the Budget Department to consolidate and prioritize development projects for the budget committee's decision.

Lessons learned workshops on budget formulation process for the Budget Department officials was held in early 2010. During the workshop the 1390 budget preparation action plan was improved and aligned with the new requirements. Notably, 1389/90 national budget data and tables were generated from the FMIS (State Budget Planning System/SBPS) which was launched late December 2009 and successfully produced the required data for the government and legislatives officials.

One of the earlier problems of the National Budget Statements was poor data or no data on provincial allocations which is a critical element for scrutiny by the parliamentarians. To correct the problem, provincial allocation for all development projects are now presented through B4 forms which addresses the concerns of most stakeholders.

Timely budget submission to the legislature was a challenge for the past years. However, the early revision of the budget calendar by the Budget Department enabled the Ministry of Finance to submit the national budget for parliament's approval on time, as required by the constitution. The 1389 national budget statement, as per the Afghan Constitution, was submitted sixty days before the start of the new fiscal year to the legislative body. Constitutionally, the budget should be reviewed by the Upper House for fifteen days and forty five days by the Lower House. But due to inter-governmental political problems, the delays occurred in the approval process of the National Budget for 1389. The Budget Statement was rejected by the Parliament at the beginning of the second quarter of 2010. The revised budget, incorporating the parliament's comments and observations had to be resubmitted for approval by the parliament.

1390 Budget Planning

Based on a review of the overall efforts, plans were initiated to align the government's expenditure plans with the international standards. Reviewing the Classification of Functions of the Government (COFOG) and inclusion of Government Financial Statistics (GFS) exercises started, as well. Further actions in these areas are planned for the future months. To provide the Budget Department with a realistic estimate of required resources for implementation of the 1390 budget, training on costing methodology was conducted for more than 345 civil servants.

Encountered with the challenge of the low capacity of the line ministries on budgeting practices, the available technical assistance projects were used to develop the capacity of the line ministries in public finance management. At the Ministry of Interior Affairs, the exercise was started with LOTFA on predicting future commitments for the Afghan National Police.

Budget Circular One (BC1):

Budget Circular1 and its instructions and forms were approved early in the second quarter of 2010 by the budget committee. Comprehensive training and capacity development workshops were provided

after circulation of the above package to more than 500 government senior and mid-level officials from the central line ministries. The exercise included explanations on the instructions and guidelines that help prioritize the needs and planning of development projects of the line ministries.

On the job training and capacity development exercises were also conducted at the ground level with the line ministries' technical and budget staff. This enabled MoF and the Budget Department, in particular, to put out BC1 early and thus receive submissions early. The BC1 submissions were reviewed by MoF and MoEc for economic analysis and to confirm alignment with the national development strategy and priorities.

Consultation and coordination with the ANDS team were undertaken after the Kabul Conference to integrate the National Priority Programs into the BC1 and BC2 processes.

In order to align budgetary resources with line ministries' ANDS strategy results and to support ANDS priorities with the required budgets, BC1 was developed and distributed to all budgetary units. The purpose of the circular was to a) make all budgetary units to provide their priorities and activities; b) cost those priorities and associated budgets of the activities for the year 1390-1392 and c) identify results (outputs) expected to be produced with the requested funds. If appropriately planned, the BC1 submissions from budgetary units could help identify and assess priority government programs that can be funded from available resources and determine budget ceilings. The ceilings in the Pre-Budget Statement adopted by Cabinet in mid September 2010 would form the basis for Budget Circular2.

Comprehensive workshops and training for the BC1 submission were conducted for all the budgetary units' planning and finance departments. The number of government officials trained at these events exceeds five hundred budget and finance staffs.

BC1 template, forms and a ministry-specific analysis questionnaire for data analysis and submissions were developed. The template asked the budgetary units to provide concrete justifications for any large increases in their 1390 planned requirements and provide descriptive information for the new initiated projects. As a part of the effective budget planning practice, analyses of the submitted budget requests for 1390 was undertaken.

The purpose of the analysis was to highlight if:

- budget increases of more than 5% compared to the baseline are justified;
- baseline information are provided for all the proposed projects
- the development and operating costs related to each initiative is identified;
- the new initiatives would make a contribution to or support government policies on pro-poor, gender or other cross cutting issues;
- data is reconciled and consistent with the SBPS fed figures;

The above analysis is expected to strengthen the budgetary units' capacity to forecast their budgets in accordance with their actual needs and development strategies rather than ad-hoc budgeting or traditional budgeting practices. The analysis forces the budgetary units to apply principles of accuracy and precision in their budget planning and formulation process.

The submitted data for BC1 requirements were reviewed and the FMIS (i.e. SBPS) was customized accordingly to receive the data. This was indeed an achievement as the computerized data analysis and reports minimize the level of errors.

1389 Mid Year Budget Review:

Poor planning and program development are major challenges for the government to overcome for effective budget formulation and execution. The mid-year budget review exercise provided an opportunity for the MoF and line ministries to review the budget performances for the first two quarters of 1389. Operating budget expenditure percentage is satisfactory as it mostly finances the civil servants' salary. However, the low budget expenditure for the development budget is a major concern for the GoA.

The mid-year budget review exercise conducted during 2010 focused on the following:

- Identify projects that need fund adjustments either to include new development commitments or to decide on carry forward to 1390;
- Review of the development projects to exclude completed projects from the national budget decree;
- Exclude projects that either have no financing potential or for which preliminary requirements, such as feasibility studies, are not done yet;
- Review projects with low execution rate and recommend necessary actions to improve project performance;

To cover the needed areas, a mid-year review template covering the above objectives is developed. The template intakes data from the budgetary units for revisions and proposals to be included for the 1389 mid-year review process. Initial data on unavailability of funds from donors and on completed projects and projects put on halt are collected from line ministries.

Preparation of financing table for the national budget and identification of the budget deficit for previous years is also a part of the exercise at this time of the year. Budget deficits for the previous years were identified through extensive analysis as some of the donor's pledged commitments were not translated into disbursements. Besides, planned disbursements were also not deposited into the GoA's Treasury account.

2. 2. Program Budgeting

Background:

A Sound Budget formulation to be used as a tool for preparing and presenting the government's priorities and plans in a manner that provides clear linkage between the resources and the ANDS outcomes that GoA wants to achieve remains a top priority for the GoA.

Program Budgeting is a budget integration process aiming to a) bring together (integrate) budgets prepared under recurrent (operating) and development budget and b) enable the planners and decision makers to scrutinize what results are being achieved through the expenditure of government resources.

The PFM Road Map considers the program budget implementation as the best tool available to align the development projects to the ANDS results framework. It also assists with realistic costing of the development projects and efficient utilization of the available resources.

The budget integration guidelines (manual) developed and approved in consultation with the Tashkeel office, Independent Civil Service Commission and Ministry of Economy provide a comprehensive strategy to achieve the objectives as mentioned above.

As a starting point for achieving these objectives, program budgeting, a new PFM reform experiment started with the large development budget spending ministries four years ago, in 1386. Since then, the success and results of this specific reform was not evaluated in depth by the Budget Department. However, ad-hoc meetings and reviews had taken place with the line ministries and reports generated. In 2010, IMF undertook a systematic analysis and review of the program based budgets submitted by the line ministries. On the basis of the review, Budget Department prepared a policy paper proposing implementation of program budgeting in all fifty four budgetary units. The policy was approved by the council of ministers. The review and the approved policy enabled MoF to replace the traditional budgeting process with the Program Budgeting and attracting top government officials' support in its implementation process.

The rollout of the Program Budgeting to thirty four remaining line ministries out of 54 budgetary units resulted in covering all the central government institutions in the Program Budgeting reform. In the early second quarter of 2010, two separate Steering Committee meetings with the participation of Deputy Ministers from both existing and newly recruited pilot ministries were conducted. The Steering Committee discussed the way-forward for the reform implementation, agreed to continue the process and integrate it in all future planning.

Capacity Development Needs Assessment and Training:

Since the program budgeting implementation needs new capacity at the national level, annual Program Budgeting Training Strategy was developed in 2010 to address the most needed areas of capacity development, based on a capacity needs assessment study, already conducted at the start of the third quarter 2010. Comprehensive training, focused on program budgeting objectives and outcomes were delivered during the month of July for all the newly introduced budgetary units resulting in training of more than 575 line ministries staffs.

The new capacity development training program included the lessons learned from the past years of program budgeting implementation. The BC2 and its forms included the needs identified and the new and improved concepts to overcome the problems encountered in the past years.

Admittedly, the division of responsibility and authority of the Finance and Planning Departments within the line ministries proved to be challenging in the implementation of the reform process. Currently, the Operating or Recurrent Budgets are handled by Finance Departments while Development Budgets are managed by Planning Department. Ideally, the integration of the development and operational budgets into a single budget should be undertaken by one department. The Integration Instruction on getting the two departments to work together to overcome duplication and confusion, arising from the current duplication of tasks, was developed and endorsed in consultation with the Ministry of Economy, Independent Administration Reform and Civil Service Commission and the Tashkeel Office. The new instructions were also approved by the Steering Committee members who are the actual implementers of the plan.

The program budgeting manual, developed for training and provision of ongoing assistance to the line ministries, includes planning, designing, budgeting, costing, executing and performance reporting instructions. The manual was revised to incorporate the needs of Gender Responsive Budgeting (GRB), provincial budgeting, and Pro-poor spending within the development programmes. Program Budgeting Manual now consists of four volumes.

Senior Level Support:

The program budgeting reform that was introduced in 1386 with three pilot ministries lacked political support from top government officials. This absence of support along with the lack of interest and support by the line ministries made it difficult for the MoF to achieve the objectives and the targets on time.

Implementation of the reform process across all line ministries needed both political and management support from senior government officials. Awareness generating sessions to clarify the concepts, its benefits and the process of implementation were conducted with the new pilot ministries' senior officials, deputy ministers and provincial directorates. The presentations also enabled the provincial authorities to better understand the government's charts of accounts while planning and executing finances at the provincial level.

An endorsement letter from the council of ministers strengthened budget department's hands in implementing the reforms.

Program Budget Implementation Action Plan 1390:

Program budget team developed an action plan stating the key functions and processes which line ministries have to perform with an eye to the budget timetable and MoF timelines. Measured and effective plan by budgetary units would promote smooth and timely implementation for the year 1390. The implementation instruction with the action plan was circulated to all the budgetary units both in Dari & English which is to be signed by top level management and returned to MoF indicating agreement to the plan.

Endorsement of Integration Instructions by the Cabinet for Finance and Planning Departments (Operating & Development Budget):

The fragmentation of budget planning processes within the line ministries and inefficient utilization of government and limited aid resources is a challenge for effective budgeting. Therefore, a guideline for

the integration of functions for Finance and Planning departments at the ministry level was developed in mid 2010 and endorsed by the cabinet.

Program Budget Preparation and Expenditure System:

Budget Preparation and Expenditure Tracking (BPET) is a key financial management information system (FMIS) facilitating the line ministries in a) preparation of budget; b) tracking of budget expenditures; c) costing; and d) reporting. It has been observed that the ministries using BPET have been immensely successful in implementing Program Budgeting reform. Therefore, in the last steering committee meeting on program budgeting MoF agreed to provide fund for the line ministries to purchase the software. The BPET database latest version which was designed by the contractor with some new features and applications was assessed for its utilitarian value. Project experts assisted the assessment team and brought further amendments in the database.

Detailed Costing Training:

Due to limited national resources, it is critical that accurate planning of financial resources be undertaken. Thus, accurate costing for 1390's National Budget activities and financial resources are identified as priorities. The workshop material for both operating and development budget costing, developed early in the third quarter comprise presentations with relevant exercises and examples. The detailed costing training and exercises enabled the budgetary units to cost their budget properly and realistically.

Budget Circular Two (BC2):

By late mid 2010, designing and formulating new integrated comprehensive BC2 forms and instructions for the Year 1390 were completed. For the year 1390 all the budgetary units were obligated to submit their budget in programmatic forms. The newly designed forms and instructions were shared with all units within the Budget Department for comments and inputs. Amendments were introduced, as per the review and recommendations of the Budget Department.

BC2 is designed to provide guidance to all ministries and budgetary units on the preparation of the integrated 1390 Budget, and to ensure a consistent presentation of budget proposals across all parts of the GoA. To achieve this, budget submissions are to be made within the time lines specified in the circular. They should reflect an equitable allocation of resources among provinces and districts. They must integrate the needs of gender and other marginalized and vulnerable groups. Previous years had two versions of BC2 and two sets of budget submission forms – one for program budget pilot ministries/budgetary units and one for non-pilot ministries/budgetary units. For the preparation of 1390 budget, Program Budgeting is being rolled out to all ministries/budgetary units. Thus, for the preparation of 1390 budget only a single set of BC2 and associated budget submission forms are being issued to all ministries and budgetary units. The purposes of this BC2 for 1390 are to:

- provide guidance to ministry/budgetary unit on the form and content for the 1390 budget submission;
- provide formats for the presentation of budget request (submission) for the 1390 fiscal year (including budget forecasts for 1391 and 1392);
- seek ministry's/budgetary unit's detailed 1390 budget submissions aligned with ANDS results;
- advise ministries/budgetary units on integration of the operating and core development budgets.

The BC2 instructions include pro-poor budgeting requirements and have integrated the gender as one of the cross cutting issues for 1390 expenditure planning. Initial discussions were initiated to include environment as another cross cutting issue for 1391's budget planning.

Budget Circular 2 Training:

After the BC2 distribution to the line ministries, comprehensive sessions were held to provide training on BC2 forms, instructions, costing methodology and submissions. Presentations on MTBF, gender sensitive budgeting and pro-poor expenditures were also delivered to the line ministries' representatives. More than 400 government officials including finance and planning directors were trained.

Technical Assistance for Implementation:

As stated above, program budgeting reform led by MBAW started in 1386 with a number of donors financed projects. Donor support included a) training of trainers (ToT) in MoF for further training of other relevant staff of GoA and b) providing technical training to MoF staff in formulating policy and procedures, and coaching and mentoring of government employees.

Under these donor financed programs, technical assistance teams were assigned in each ministry and budgetary units implementing program budgeting. The key functions of the advisory teams are to create capacity within the LMs and pave the way for smooth implementation of the reforms.

Since 1390 budget planning process, all budgetary units (54 budgetary institutions) have been covered by Program Budgeting. On the basis of evaluation of the current capacity level of the existing line ministries and the resulting identification of the successful line ministries in the implementation of program budgeting, the TA teams were extracted out of these ministries.

Monitoring of Implementation:

Proper monitoring mechanism is critical for effective program budgeting implementation. The performance evaluation and program development capacity of the line ministries were assessed during mid 2010.

As mentioned above, based on the capacity assessment and performance, a number of existing program budgeting ministries were graduated. The technical assistance (TA) provided to the graduated ministries through USAID financed project were stopped. SWOT methodology was used for analysis of the capacity of the ministries resulting in relevant changes in the approach of MoF and implementation of program budgeting within line ministries.

The program budgeting team evaluated the technical assistance strategy used in the graduating ministries and provided inputs for the improvement of the reform process and efficiency of the Program Budgeting mechanism. Briefing meetings were held with all budgetary units for initial discussions on the implementation strategy and required improvements.

Following ministries fulfilled the criteria set for graduation to receive graduation certificates in the upcoming program budget steering committee.

- Ministry of Public Works
- Ministry of Agriculture and Irrigation
- Civil Service Commission
- Ministry of Economy
- Ministry of Transport and Civil Aviation

Provincial Budgeting

One of the focus areas for the budget reforms processes and a top priority for the Ministry of Finance is to implement the Provincial Budgeting that aims to equitably distribute resources among provinces and eliminate disparities that currently exist. A new policy paper on provincial budgeting and the way forward is developed with the technical support from U.S Treasury and CTAP/USAID project and approved by the project's government counterpart.

The policy document focuses on three main objectives of the Budget Department for provincial budgeting: i) sustainable capacity development at the sub-national level; (ii) provincial resources allocation process; and (iii) consultation and coordination with PRTs and other development partners' programs which are to be reflected in overall road map of provincial budgeting in Afghanistan. Subsequent to the Budget Department's approval, the paper was translated into an annual action plan for Provincial Budget Unit to be implemented during 2010.

I) Capacity Building and Development have been divided into two categories:

- a) Provincial Budgeting Intensive Training Program that aims to cover 14 provinces and;
- b) Provincial Reconstruction Teams (PRTs) Training Program which is a special course designed and conducted for PRTs that invest in development projects; this component will focus on training PRT officials on Afghanistan's Public Financial Management Laws and procedures.

II) Provincial Resource Allocation (PRA): is a pilot project started with technical assistance from the WB. The objective of this pilot is to develop norms or formula for resources allocation to the provinces. Most of the provinces are not satisfied with the current resource allocation practice of the line ministries arguing that resources are distributed without consideration of any criteria or norm for just and equal development of the province.

For the pilot project, from amongst ministries, Ministry of Education (MoE) was piloted due to its vital role in development of the country and the capacity it has at the central and provincial levels. Amongst provinces, four pilot provinces- Herat, Kandahar, Helmand and Bamyan were selected based on the following norms: need to address economic growth and development needs in the provinces, meet security challenges, deliver good governance, and deliver educational services to areas cleared from the Taliban by military operations. An evaluation of the allocation practice used will be made immediately after the completion of the pilot phase. If results appear successful the PRA approach will be applied to MoE budget for FY 1390/91 and will be expanded to more line ministries and provinces subsequently.

III) Consultation and Coordination: As stated earlier, the Budget Department is committed to strengthen its communication with PRTs' officials and other relevant stakeholders at the sub-national levels. Most of the PRTs are directly working with community elders for investing on development projects proposed as community priorities. One of the problems with this practice is that these projects are not always aligned with the government's strategy (ANDS) and are not reported to the relevant line ministries. As a result, potentials of duplication cannot be eliminated and such projects with which the line ministries have had no involvement, are often not sustainable in the absence of ongoing financing of operation and maintenance costs from the line ministries when PRT financing stops and projects are handed over to the community. The new mechanism of provincial budgeting will link the Provincial Development Plans (i.e. based on provincial level priorities) with the budget.

Support to the District Delivery Program (DDP):

DDP is a multi-donor program coordinated by the Government of Afghanistan designed to establish and promote the visibility of the Government by holistically engaging the governance system at the district level by ensuring delivery of basic public services directly to the district level communities. The DDP is an inter-ministerial program coordinated by IDLG, in partnership with the Ministry of Finance and other sectoral ministries. The program is being launched in a limited number of provinces and by 2012, it is to cover 80 districts. The MBAW Provincial Budgeting Team represents MoF at the technical level of the DDP, which controls the new mechanism of funds management and budget execution.

DDP initiative is largely supported by USAID mission in Afghanistan. USD 40 million is committed for the first phase of the project to finance the planned projects. However, budget execution remains a challenge for effective program implementation. Regular meetings and sessions are held with the relevant line ministries to identify the problems of slow execution and take actions in addressing these. Allotment and budget execution process issues are regularly discussed with the LMs and

technical groups to promote efficiency in implementing programs. Hardship policies under the DDP activities were reviewed and required feedback was provided to the MoF officials.

Presentation was delivered on provincial budgeting action plan and activities as well as on DDP program and budget execution at provincial levels to the USAID mission. DDP implementation and the way forward were discussed with IDLG senior management.

Provincial Budgeting Implementation Plan:

Provincial Budgeting implementation plan has been developed. The plan includes the Coordination and Consultation exercise with the provincial authorities and PRTs; Norms Development and resource allocation with the Ministry of Education and its four pilot provinces; and Capacity Development in Budgeting and Programming by the provincial line departments. The action plan also includes curriculum development for capacity development of the provinces.

Security remains a challenge in rolling out the reform to most provinces of the country. However, ad-hoc workshops and conferences organized by the PRTs that included representatives of the Independent Directorate of Local Governance (IDLG), provincial governors and central ministries representatives were conducted to discuss the budget department reform plans related to Provincial Budgeting.

One of the major tools for the provincial budgeting rollout plan is consultation and coordination with various stakeholders and relevant organizations (elaborated below). A detailed framework for monitoring progress of the consultations and the roll out was developed. The monitoring framework is used for ongoing planning and evaluation purposes. In addition, the intensive capacity development component for provincial budgeting is also integrated into the updated monitoring framework.

Coordination and Consultation:

IDLG developed the Sub National Governance (SNG) policy, which was recently approved by the cabinet. One of the major focus areas is sub-national planning and finance where the provincial budgeting team need to closely work with IDLG to achieve the objectives. Coordination for achieving the target objectives is an on-going priority for all relevant stakeholders.

Consultation sessions were held with World Bank Sub-National Governance, Planning and Finance Advisor and IDLG to identify ways of improving sub-national financing, procurement, planning and promoting service delivery. Sessions included coordinating Budget Department's activities with the IDLG. Improving sub-national efforts and avoiding duplication of activities by the Budget Department and IDLG were emphasized. It was agreed that existing provincial budgeting plan is designed to help implementation of SNG policy. Discussions were held with Sub National Planning Team from IDLG and questions were answered on various aspects of public financial management and budgeting.

During the third quarter, the provincial budgeting team initiated conversations with Ministerial Sector leads to prepare for Ministerial Consultation and Coordination which is expected to be completed in early October and will include nine ministries: MAIL, MRRD, MoE, MoPW, MoH, MoJ, MoF, MoWE and MoT.

Provincial Budgeting Consultation:

From early August to end of September comprehensive sessions were held for Balkh, Bamyan, Jawzjan, Kunduz, Nangarhar, Kunar, Laghman and Nuristan provinces. The objectives of these workshops were to involve provincial authorities in planning and budgeting processes at the provincial level through a transparent and consultative approach. Provincial authorities were guided on how to get their priorities incorporated and financed through core or external budgets. These consultative mechanisms are used as tools to eliminate the current problems and complaints about financing of development projects and operational budget issues and for creating the most efficient and effective provincial budgeting process possible.

Outreach missions for Balkh, Kandahar, Bamyan, Panjsher, Nangarhar and Badghis PRTs were also held to improve the understanding and knowledge of PRTs- to help them understand GoA planning and budgeting procedures and related PFM issues.

Consultation and Coordination exercise held for Kunduz province was organized by the provincial budgeting team and was attended by representatives from Kunduz province. The purpose of the workshop was to present the MoF’s provincial budgeting action plan and consult with key provincial line directors for improved coordination and communication between the Ministry of Finance, line ministries and provinces on provincial budgeting and public financial management issues. Provincial Budgeting Team led the Ministry of Finance delegation in presenting the provincial budgeting action plan, discussing the priority projects initiative, and consulting with provincial government officials to better understand current challenges in provincial budgeting. About 35 representatives from Kunduz line directorates, general finance, economy, and provincial councils attended the one-day workshop.

With the support from USAID technical assistance project, preparatory work and coordination was done for Regional Command North (RCN) Conference on Provincial Budgeting for eight Northern provinces. RCN conference on provincial budgeting was held in Mazar-e-Sharif where presentations and orientation on all aspects of PFM were presented. Open and round table discussion was also held with provincial authorities and bottlenecks were identified and lessons learned noted for forthcoming conferences. The conference was warmly welcomed by all provincial authorities as direct dialogue helped to solve problems ahead of service delivery and operation at local levels. It was a productive initiative to identify avenues for enhancement of service delivery and satisfying local authorities.

Communication:

The provincial budgeting team continued to establish strong communication links between IDLG, Word Bank, USG, ISAF, USAID, DFID, US Embassy and other international organizations through regular consultation and coordination. Improvements in communication among the relevant stakeholders and Budget Department have indeed made it easier for all to understand the shared objectives. Besides, the process helped to develop the image of government ownership of development efforts financed by the development partners. The provincial budgeting action plan with its timetable is also shared and communicated to the other stakeholders, such as, Regional Commands and US embassy for provision of required assistance at the provincial level. Efficient communications process created incentives for future PRTs and Afghan officials’ joint regional conferences.

Efforts were made to collect information on off budget funding, particularly for CERP programs, with a view to record the financing and content of the CERP programs in the government’s information system. Further attempts are being made to refine methods for including all security related spending (CERP, CSTC-A, etc) into the Development Assistance Database. The transfer of CERP data into the DAD was arranged with the support from AMD. Tracking log is now created to promote transfer of project related data to the DAD system. The IJC policy letter on development effectiveness, which requests IJC units to adhere to GoA Operational Guide: Criteria for Off Budget Development Finance, has been finalized and distributed. .

ISAF’s participation in the Paris Declaration review process is currently underway at MoF, Inputs by the Provincial Budgeting Team was provided for an AFMIS PRT user’s guide, currently being developed by the Treasury and soon to be distributed. Coordination with RC (E) is expanded for a broader scope, including “CERP as a Budget concept”. The provincial budgeting team conducted OTA Treasury “deep dive” session with IJC to improve their understanding of GoA’s budgeting and finance processes and procedures.

1.2 Strengthened Budget Formulation Processes

Activity Result	Description of results/achievement	Delivery
Budget Circular 1 (BC1) developed	National Priority Programs integrated into the BC1 process, and budgetary processes aligned with ANDS strategies; line	Delivered

and distributed	ministries trained and capacity developed to ensure BC1 forms were submitted on time.	
Program budgeting policy approved and implementation commenced	The Budget Department prepared a policy paper on the implementation of Program Budgeting, which was submitted and approved by the council of Ministers: the traditional budgeting process is replaced by program budgeting in line ministries and across budgetary units.	Delivered
Program budgeting manual developed	The Program Budgeting manual was developed to provide support for line ministries, including necessary instructions to carry out program budgeting tasks. The manual was revised to incorporate Gender Responsive Budgeting, provincial budgeting and pro-poor spending	Delivered

(1.3) Strengthened Budget Execution Processes

Low budget execution for the government's development activities remains a concern for the international community and for the government, as well. The donor community is not willing to channel funds through the government's core budget due to the lack of capacity to fast absorption of funds and not executing the committed funds during the fiscal year. The GoA committed itself once more to simplify the existing budget execution procedures in January 2010 at the London Conference.

Actions Taken to Address Low Budget Execution:

As mentioned above, low budget execution remains a high challenge for the GoA to overcome. The delivery capacity of the government agencies is a serious concern for the international community. Bi-weekly meetings were organized at the senior level with the government officials to review budget performances and address the above concerns. The review included discussions on the progress, obstacles and bottlenecks and measures to expedite expenditures.

Top 50 national development projects for 2010 were identified for review. . The progress of these top priority 50 projects, which make up 70% of the overall development budget of the government, were reviewed on weekly basis with the relevant line ministries and budgetary units. The review included scrutiny of the poor budget performances. Reports were submitted to the Council of Ministers for further evaluations.

For credible budget performance, the allotment process and internal controls were further strengthened within the Budget Department. The new internal control systems have further enabled the line ministries and sectors to minimize the errors and reduce the timelines of the process to two days.

New initiatives, with the start of GoA fiscal year, included the development of Financial and Procurement plan templates. The templates were submitted with the required information to the Budget Department by all the central line ministries at the beginning of the year. It enabled MoF to evaluate the real performances of the line ministries against their planned expenditure. In addition, the procurement plans allowed MoF to have a better cash flow forecast, in particular with the discretionary financed projects. The project staff, on behalf of the Budget Department, participates in the procurement processes of the line ministries. Developing the capacity of the procurement staff with on the job training should prove to be useful. These measures should help the line ministries in improving the procurement processes.

Budget Execution Conference was held in mid 2010 primarily to address the concern of the low budget execution performance for the first five months of the fiscal year and to provide awareness to the participant Ministers on the existing challenges and problems.

The conference proved to be productive for the Budget Department as such events successfully attract the attention and interest and engagement of the high government officials. Follow up meetings by

Minister of Finance, Deputy Finance Minister and Budget Department team continued throughout the quarter. The 10 largest ministries were visited by MoF Minister and BD team. Deputy Minister also led some of the middle budget execution rated ministries to promote better budget performances, identify the bottlenecks and obstacles and address them in a timely fashion.

Trainings on the 1389 budget execution processes for all the central line ministries were delivered. More than 500 government officials at different levels attended the capacity development training. The very first Budget Execution Manual was developed. The Manual includes procedural explanations, processes to follow, forms and their descriptions, FAQs and case studies. It promotes better budget execution and performances and helps the newly recruited budget and finance staff in self capacity development and rules to follow in requesting development budget allotments.

Fiscal Policy Unit prepared an analytical detailed report on “Domestic Revenue Performance and Budget Execution rates during the first half of 1389” for the cabinet. The report was presented by MoF minister to request the cabinet ministers to continue strict monitoring of the budget execution rates for the remaining of 1389 fiscal year. The report also requested the cabinet ministers to set the 1390 budgets at a realistic level to achieve the target execution rate.

Budget execution enhancement efforts included creating control levels within the Budget Department. The controls aim to ensure budget requests are in line with the national budget document, ANDS strategy results and reduced errors in budget requests from the line ministries. The Budget Execution Unit controls the alignment of payment documentations with the agreed standards.

Financial protocol for facilitating the financial arrangements of District Delivery Program was drafted and negotiated with stakeholders. It aimed to speed up and ease the process of allotment requests and transfer and reporting by IDLG. A workshop was conducted engaging the relevant parties to provide information on the budget execution processes and develop the capacity of the relevant staff.

The MBAW sector managers continued their support provided to LMs throughout 2010 for better coordination with donors to review the donor financed projects (e.g. ARTF/WB) to overcome the program/project level challenges. Communication with security and LOTFA donors for disbursing their commitments and financing security sector expenditures continued. Fund raising efforts were underway for the unfunded development projects that were part of the national budget. Most of the consultations included requests and encouragement to donors to channel their funds through the core budget. The budget team acted as liaison with Treasury Department to address the problems with the budget execution.

Throughout 2010, the MBAWP budget team provided considerable technical and administrative advice to MoF top officials on sectors project related issues. The SBPS system was made customized to capture the allotment data. MoF Budget team helped the line ministries with their recruitment of technical and financial experts and procurement processes to further facilitate the projects implementation and budget executions.

Actions under Specific Heads

Improvements in Budget Carry Forwards: A new mechanism and budget circular for the carry forward funds for the development projects with a clear timetable was developed in consultation with the Treasury Department early January 2010. The mechanism describes the steps with clear timelines for the line ministries and the Ministry of Finance to avoid any delays in budget execution for 1389. A detailed analysis of the budget carry forwards requests from the line ministries was conducted that enabled the Budget Department to re-allocate the limited available resources for those development activities which were ready to be undertaken in 1389.

Improvements in Budget Execution Process: As part of the PFM reform, the existing budget execution mechanisms and forms were reviewed with technical support from the SAB/ASI project advisors. Based on the findings, a new mechanism was approved with revised forms, which were used throughout 1389. The revised budget execution mechanism and forms decreased the number of working days for an allotment to be processed from four to two days. Moreover, the electronic filing

system further simplified the procedures in the budget execution unit. A review of top 10 priority projects by the Budget Department proved to be effective in pressuring the line ministries to focus on faster execution and project implementation

However, the budget execution percentage compared to the past years is much lower due to the deteriorating security situation within the country and the time consumed by the presidential and parliamentary elections during 1388/89.

Improvements in Charts of Account: The program budgeting implementation has direct implication on the government's financial management system for tracking the required reports. BIRU, in consultation with and support from the Treasury department, revised the 1389 CoA. The new CoA enables the FMIS to pick-up the pro-poor and donor's expenditure requirements.

Supplementary Budget: Poor planning and program development is causing the GoA to have the supplementary budget prepared on annual basis. On the other hand timely information on real commitments by the development partners is also not provided. This disables the line ministries and MoF to estimate their cash flows. Therefore, more than 40% of the national development budget is carried forward from current to next fiscal year.

Budget balance carry forward template of 1388 to 1389 budget was developed in 2010. The template was designed and made consistent with the SBPS system. In addition, the SBPS is further customized to capture the actual expenditure generated from AFMIS to provide the Budget Department with the actual budget balance.

The supplementary budget preparation started by mid 2010. The process included reconciliation of the actual expenditure and allotments and finding the exact budget balance to be carried forward. The practice included all 54 budgetary units that had development budget projects. Supplementary budget is prepared as an annex to the national budget and is approved by the council of ministers (cabinet). Supplementary budget guide the budgetary units on the amount of money carried forward from the previous year.

1.3 Strengthened Budget Execution Processes

Activity Result	Description of results/achievement	Delivery
Financial and procurement plan templates developed	The templates enable the MoF to evaluate line ministry performance against budget expenditure, and to formulate cash flow expenditure forecasts based on procurement needs.	In progress
Budget execution manual developed	The manual helps staff align activities within approved guidelines, resulting in better budget planning and execution, and improved budget allotment requests.	In progress
Budget execution mechanism forms reviewed and revised	The revised forms improve the budget execution process by decreasing the time to process an allotment from four to two days. Electronic filing of forms encourages faster budget execution and project implementation.	Delivered

(1.4) Strengthened Budget and Fiscal Policy Monitoring and Reporting

Monthly and quarterly fiscal bulletins were produced throughout 2010. The bulletins outline the recent fiscal and macroeconomic developments recorded during the year. The report also outlines detailed analysis of the GoA low budget execution. Copies of the bulletins are available on the budget department website i.e. www.budgetmof.gov.af

IMF and the MoF management handed over the secretariat of the TCC meetings to the Fiscal Policy Unit (FPU) where MRAW/UNDP provides human resource support for administration and

management functions. TCC aims to follow up and provide timely feedback on donor finances to meet the IFI benchmarks set for the GoA.

Systematic reviews of the benchmarks established by the international financial institutions through conducting technical coordination meetings were undertaken. The overall coordination efforts are managed by project's fiscal policy unit. The review includes updates and progress on the benchmarks set by International Monetary Fund (IMF) for its PRGF grant covering revenue mobilization, expenditure reforms, reforms of state-owned enterprises and those of the banking sector. Consultations were held with IMF mission for the 7th review of the PRGF program.

Monitoring the ANDS progress and its alignment with the Budget Performance proved to be a challenge for both the Ministry of Finance and Economy. Therefore, through a consultative process, a harmonized reporting template on performance reporting was developed in 2010 with the support of ANDS Department at MoF and Ministry of Economy. It enabled both ministries to report in line with the ANDS sector results strategies and link the progress with the budget performances. The new template was the first step in the process of evaluating the impact of the budget on the key development indicators.

In 2010, the reporting quality on fiscal developments and trends were further strengthened. The 1388 Fiscal report included the fiscal and budgetary developments during 1388, the overall macroeconomic performance, domestic revenue performance, expenditure performance, and the detailed analysis of the expenditures by ANDS and COFOG sectors, based on preliminary outcomes of 1388.

The operating budget sustainability analysis was conducted which also included analysis of domestic revenue targets for 1389/90. The revenue model was improved to help promote improved future estimates.

To further strengthen the efforts of the newly established Macroeconomic Policy Co-ordination Working Group (MPCWG), a Macroeconomic Database is developed. It analyzes the likely impact of any macroeconomic policy in specific sectors such as, fiscal, monetary, or other sectors of the economy. Such analysis is crucial for bringing about results that are effective and consistent with government's overall policy.

Food and security cost analysis for Afghan National Police based on LOTFA phase 6 project document was developed. The paper developed by the Fiscal Policy Unit proposes alternative options for the GoA to take over the related security costs in the short and long term.

The ADB Country Performance Assessment (CPA) on Afghanistan's fiscal and macroeconomic targets in medium term was reviewed by the Fiscal Policy Team and inputs, as per the GoA fiscal strategy and sustainability, were provided. The ADB CPA report will be released soon.

As stated in the PFM Roadmap, presented to the Kabul Conference, Afghanistan's rating in the OBI must improve by 30% for 1390 through promotion of better communication across government bodies, as well as with civil society organizations. This will further improve the transparency of budget formulation. As explained earlier, the PFM Roadmap was translated into action plans with achievable activities during the third quarter to help attain the target.

Efforts were initiated within the Budget Department and Fiscal Policy unit to improve Afghanistan's rating for Open Budget Index (OBI). Fiscal reports for 1388 and 1389 and Pre-budget statement for 1390's budget were prepared in 2010. The FPU coordinated the OBI initiative. According to the 2010 survey, Afghanistan's score improved to 21 percent (compared to only 8 percent in 2008 survey).

The Fiscal Policy Team coordinated and finalized the new IMF document (Memorandum of Economic and Financial Policy for Extended Credit Facility), which is likely to be approved by IMF board. The new structural benchmarks set in the above document are also incorporated in TCC Matrix. TCC matrix that is now managed by FPU enables MoF to track the progress made with reference to the International Financial Institutions benchmarks.

An introductory Macroeconomic Policy Coordination Working Group (MEPCWG) meeting was held with Da Afghanistan Bank (DAB) for the first time. This working group is responsible for increased

coordination between the two agencies (MoF and DAB) on macroeconomic, fiscal and financial policies.

1.4 Strengthened Budget and Fiscal Policy Monitoring and Reporting

Activity Result	Description of results/achievement	Delivery
Open Budget Index Rating Improved	Fiscal Policy Unit prepared fiscal reports for 1388/89 and the 1390 pre-budget statement resulting in an improved Open Budget Rating from 8% (2008) to 21% (2010).	In progress

Component 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)

(2.1) Alignment and improved coordination of External Funding in line with Paris Declaration, Afghan Compact to support ANDS implementation

This output involves efforts to promote aid effectiveness principles and improved alignment of aid to support Afghanistan's development goals and strategy

ANDS financing gap remains a high challenge and concern for the GoA. In addition, misalignment of externally managed aid with the national priorities makes many of the externally financed development projects unsustainable. Non-inclusion of the operation and maintenance costs in many such projects would eventually impose serious burdens on the government's budget in the future.

Aid management unit is a platform where these challenges are analyzed and resolutions sought. A new action plan for the Aid management Unit was developed in 2010 that outlined actions to be taken to overcome the existing challenges.

In January 2010 International Conference on Afghanistan in London, the GoA committed itself to renew and reinvigorate its partnership with the international community to make aid more effective. Amongst others, an Operational Guideline for better off-budget aid effectiveness was developed with the support of MoF (Minister's office) and presented at the Kabul conference in July 2010. The guideline covered the external managed budget challenges the government currently encounters. The guide addresses the aid effectiveness principles defined at the Paris Declaration, has the potential of capacity development within the government institutions and is likely to contribute to the sustainability of the externally managed development projects.

Operational Guide to Off-Budget Development Financing (OG) was introduced to the international community during the Kabul Conference in July 2010. The OG is a document that seeks to improve aid effectiveness in Afghanistan by outlining the principles and criteria that GoA Development Partners (DPs) should follow while financing off-budget development projects above US\$ 5m, in partnership with Afghan public entities. International DPs agreed in principle to its policy recommendations, but recommended development of an implementation mechanism to translate the policies it contained into actions.

The OG is broadly based on the Paris Declaration (2005) and the Accra Agenda for Action (2008), which over 100 international actors have endorsed as key guiding documents for enhancement of aid effectiveness across the globe. Development Partners of the Afghan Government had intensive and constructive inputs into the development of the OG Implementation Mechanism. The document is currently under review of DM-Finance; and is pending the approval of the senior officials of the MoF management. Actual implementation of the plan under OG will help increase the GoA ownership over its development agenda and will help achieve the target of 80% alignment of the ODA with the Afghan national priorities.

AMD initiated the idea of developing a logical framework with results and indicators for each of the 5 principles of the Paris Declaration on Aid Effectiveness (i.e. Country Ownership, Alignment, Harmonization, Managing for Development Results and Mutual Accountability) to monitor the

implementation of these principles in Afghanistan. The framework will serve as a support tool to achieve the targets of the PD principles; and to provide key inputs to the international surveys to determine where Afghanistan stands in terms of meeting the targets of the Aid Effectiveness Principles. The draft is completed. However, approval of the senior management is yet to be procured before implementation begins.

The High Level Committee on Aid Effectiveness co-chaired by UNAMA and Ministry of Finance has provided the opportunity for GoA to share the concerns related to ineffective aid with the international partners and suggest policies on issues undermining the capacity of government and hindering program sustainability. The HLCAE was convened on quarterly basis in 2010 to discuss issues related to aid effectiveness and monitoring that included Paris Declaration Evaluation, preparation for Aid Effectiveness Agenda for Kabul conference and recommendations on Donor Assistance Database (DAD).

Discussions and agreements with HLCAE included the operational guidelines for externally managed ODA; firstdonor's financial review (DFR) that was conducted in the third quarter; and the Paris Declaration Evaluation and Donors Assistance Database (DAD) related issues. HLCAE is the only instrument (currently co-chaired by MoF and UNAMA) being used for better aid effectiveness and coordination.

The continuing negotiations with the donor community (bilateral and multilateral) were held throughout the year to further strengthen the effectiveness of ODA. New financing agreements were reviewed and signed by the GoA after thorough analyses that resulted in donors' contribution to the core budget. These negotiations and agreements aimed at further enhancing the sustainability of the impacts of ODA provided to Afghanistan.

Efforts on formalizing the Grants/Loan negotiation guidelines continue with technical assistance from MoF Minister's legal office. The guideline focuses on segregation of responsibilities between Ministry of Finance and Ministry of Foreign Affairs with respect to signing of international agreements with donor countries. The guidelines will also provide the norms to the international partners on how and when to interact with GoA.

For more effective aid results, portfolio reviews have been started with the large donors i.e. the Asian Development Bank (ADB) and the World Bank (IDA/ARTF/JSDF). The review includes the progress made against the available donor commitments; physical updates in project implementation; the budget execution targets; and obstacles that may hamper project's performances. The preliminary findings prove that such reviews help both the government and donor community in fulfilling their responsibilities and commitments and overcome problems that may hamper successful projects implementations. Portfolio reviews for better alignment of aid with the GoA operational guidelines and priorities will start with other large donors in the near future.

For better aid reporting and alignment, introductory negotiations were held with the ISAF head quarters on the harmonization and consolidation of data on PRT investments with those of the Ministry of Finance. The initial results for transfer of PRT data to the MoF system shows success and further efforts are planned for the coming months.

Besides, the above tactical inputs provided to promote aid effectiveness and coordination, ad-hoc negotiations were also held with multilateral and bilateral donors that helped strengthening of aid effectiveness in Afghanistan through constructive dialogue with the development partners and enhancing the transparency of aid investments.

The review process assured the development agreements to: a) address aid effectiveness principles; b) align with GoA rules and regulations (e.g. tax policy, procurement policy, etc.) and international agreements; and c) align with the ANDS sector results.

Aid Management Team facilitated the 1390 budget formulation meeting with traditional core donors and few interested donors who support non-core budget. 1390 budget preparation meetings were held with individual donors and line ministries on planned on-budget contribution to line ministries' projects in the next FY.

The Paris Declaration Evaluation based on the OECD guidelines was finalized in 2010 by an external and independent consultant hired by AMD (MoF). The Country Report on the Phase-Two Evaluation of the Implementation of the Paris Declaration was completed and submitted to OECD. The objective of the report was to analyze and assess the relevance and effectiveness of the Paris Declaration (PD) - the contribution it has made to improve delivery of aid and ultimately to development results, including poverty reduction, in the Afghanistan country specific context, taking into account country specific conditions that can affect efficiency and effectiveness of aid delivery and actual development results. The findings of this evaluation will be used as key inputs to the up-coming Fourth High Level Forum on Aid Effectiveness in Busan, Korea, Nov 29 – Dec 1, 2011. The entire process was led by the Aid Management Directorate within the Ministry of Finance which also represented Afghanistan at the global events related to this evaluation. The international partner of GoA in this process was the Organization for Economic Cooperation and Development (OECD), where the Core Evaluation Team was located. Afghanistan's Development Partners contributed significantly to this process and had key roles in the preparation of the PD Evaluation at the country level. The report will provide the international community, especially the development practitioners, with an in-depth analysis of aid effectiveness and development effectiveness in the country-specific context of Afghanistan, especially the state of fragility, while designing and developing the global policies on aid and development effectiveness.

In November 10-11, 2010, AMD represented Afghanistan in the 2011 PD Monitoring Survey Launching Ceremony, held in Siem Reap, Cambodia. Afghanistan is going to be one of the 73 countries voluntarily participating in this survey. The international partner, leading the survey, at the global level, is the Organization for Economic Cooperation and Development (OECD); and, at the national level, AMD is taking the lead with support from CIDA and UNAMA as Donor Focal Points. This is the last round of PD Monitoring Survey, and is meant to track the progress since 2005 against the 2010 targets set for the 12 PD indicators. AMD is obliged to submit the Survey Results to OECD by March 31st, 2011.

Measures were taken to further improve and enhance the transparency and accountability of the ODA, with the recording of aid investment data in the Development Assistance database (DAD). The DAD performances and challenges were reviewed and discussed at the HLCEA and at a follow up meeting with the donor partners. The consultations resulted in further modernization of the system and made DAD more users friendly. Donor profiles and portfolios are now regularly updated and monitored. Training and capacity building workshops were held for individual and group of donors to further publicize DAD and enable the donors to update the required information in a timely fashion.

The Aid Management Policy prepared in 2007 was revised and shared with stakeholders for comments. The Aid Policy will be an instrument for the development partners as well as for the GoA for aid management and coordination. The Aid Management Policy is the revised version of the Afghanistan Aid Policy developed in November 2007 as part of the Afghanistan National Development Strategy (ANDS/Chapter 9). The revision of the original version was necessary in order to reflect the latest developments and commitments related to aid effectiveness agreed between GoA and its development partners at the Kabul Conference in July 2010. The revised policy is expected to serve as a guiding tool to enhance aid effectiveness and development effectiveness in Afghanistan. Upon approval and subsequent implementation of the New Aid Management Policy, external financing will have better potentials of alignment with Afghan priorities; development assistance will be better coordinated; development projects will be efficiently implemented; and communication and partnership with the development partners will be enhanced.

2.1 Alignment and improved coordination of External Funding in line with Paris Declaration, Afghan Compact to support ANDS implementation

Activity Result	Description of results/achievement	Delivery
Operational Guide developed	To improve aid effectiveness in Afghanistan, the Operation Guide for better off-budget aid effectiveness was developed and presented at the Kabul Conference. The	Delivered

	Operational Guide outlines principles and criteria GoIRA donor partners should follow while financing off-budget development projects worth more than USD5 million.	
Bilateral and multilateral negotiations held to improve Official Development Assistance	To strengthen the effectiveness of Official Development Assistance (ODA), new financing agreements were signed after a review of donor contribution to the core budget. The result is intended to enhance the sustainability of the impact of Official Development Assistance.	Delivered
Paris Declaration Evaluation finalized	Using OECD guidelines, the Country Report of the Evaluation of the Implementation of the Paris Declaration was finalized and sent to OECD. The report was undertaken to assess the relevance and effectiveness of the Paris Declaration, and its impact on improved aid delivery and poverty reduction in the Afghan context.	Delivered
Aid investment data recorded in the Development Assistance Database	To further improve and enhance transparency and accountability of Official Development Assistance, the Development Assistance Database was modernized in response to input from donors, and donor information was updated to enhance its effectiveness.	Delivered

Component 3: Capacity Development (Implementation of Exit Strategy to develop sustainable capacity within the GoA)

(3.1) Sustainable institutional technical capacity developed and retained within the public finance sector, particularly within the Ministry of Finance and Line Ministries

The activities under output 6 focused on capacity building, in effect to plan and undertake actions to prepare the way for implementing an exit strategy for foreign consultants and technical assistance.

Organizational Structure Development

The Public Financial Management Roadmap presented by the Government of Afghanistan and endorsed by the International Community at the Kabul International Conference on Afghanistan, 2010, required structural reforms at the Ministry of Finance, especially the Budget Department.

The Budget Department Structure was reviewed in 2010 and reforms were suggested to the government. The changes, resulting from the reforms enabled the government to deliver on the 2010 London and Kabul Conferences commitments on the PFM and Budget reforms. The project's organizational structure was modified accordingly to address the need for required technical assistance.

Aid Management Department was also re-structured in 2010. The department was reorganized into aid coordination, aid effectiveness and aid reporting units that are fully resourced and institutionalized by Making Budgets & Aid Work project. The units provide strategic and technical guidance and advice to the MoF high level officials in issues related to aid management and handles all aid related matters on behalf of the Ministry of Finance.

To institutionalize and transfer the ownership of the functions of the MBAW project staff, a new Letter of Agreement (LoA) was signed between Ministry of Finance and UNDP Afghanistan for transfer of staff recruitment responsibilities to the Budget Department and MBAW project in early 2010.

Capacity Development Programs Initiated

Capacity development initiatives continued through 2010 by project experts providing lead support to the MoF Departments. Two highly-effective capacity development programs for the officials have been designed.

- One program includes a one-week exposure visit to the headquarters of the Organization for Economic Cooperation and Development (OECD), based in Paris, France. The visit will take place in two rounds in May and August, as the number of participants is large. The visit includes a tour of OECD and will provide orientation on its history, structure, objectives, divisions and key functions; as well as, lectures from OECD experts on various key development issues. The visit will not only enhance the capacity and knowledge of the MoF employees on aid and development issues, but will also help build a cooperative relation between the Afghan Ministry of Finance officials and OECD partners.
- The second program is a specialized Aid Effectiveness Training, targeting Budget Department Employees and covering technical issues of aid effectiveness, aid coordination and aid reporting. The program is being developed in coordination with the experts at UNDP Regional Office in Bangkok; however, the details of when, where, and how are still under discussions.

Both capacity building programs are being funded by UNDP-Afghanistan.

Sustainable capacity development, through on the job training, continued throughout the year for the Budget Department civil servants and line ministries in all aspects of budgeting & planning, execution and reporting.

Exit strategy implementation measures and the phase out of MBAWP supported staff were not undertaken in 2010 in view of the fact that (a) the government was not able to bring on board the required number of civil servants for training; and (b) initiation of new ambitious reforms in 2010 would be time consuming for the Budget Department involved in other intensive reforms process. The newly initiated programs comprised program budgeting roll out to all line ministries by 1390; provincial budgeting and resource allocation for 34 provinces; and meeting the GoA demand for channeling of more development aid (40% of total development assistance) through the GoA budget system.

However, in 2010, the transfer of interns to the MoF payroll was a considerable achievement. Yet, the low salary scale for government employees remain a de-motivating factor as the trained civil servants are offered higher salaries by other line ministries and development organizations. Unfortunately, most of the interns who were trained and were on the government payroll resigned because of salary related issue. Thus continuity in budget process was hampered due to departure of personnel throughout the year. In the light of this experience, decisions made to standardize and computerize all budgetary processes (such as, budget formulation system implementation and revision of the budget execution processes) which contributed to the building of a sustainable institutionalized management information system.

PFM Capacity Assessment

The PFM Roadmap presented at Kabul Conference in 2010 is a medium term approach for the GoA to reform its public financial management system. A technical coordination committee was established within the Budget Department that included donors' and IFIs' representatives. The Coordination Committee was also supported by the United States Treasury Department. The PFM assessment for the largest development budget spending ministries has been proposed by this committee.

Budget Manual were drafted in four volumes and reviewed in 2010. It incorporated the new PFM reforms. The manual included all the processes, forms and procedures used by the Budget Department.

The Public Finance and Budgeting regulation review was also started. The Budget Department team reviewed the regulations to further simplify the procedures and enhance the PFM performance of the government.

Aid Management Manual “A Guide to Aid Effectiveness” was developed. As a part of the AMD capacity building initiative, project experts developed a manual as a guide to Aid Effectiveness in the global context as well as in the Afghanistan specific context. The purpose of the manual is to introduce AMD as a directorate and its major operations. The manual lists all documents related to aid management and effectiveness at the national and international levels. This manual will help the reader (especially a new comer) to get an overall idea of aid and aid effectiveness in Afghanistan, and have an understanding of how AMD operates.

Financial Management Information Systems

(1) Development Assistance Database (DAD)

(2) State Budget Planning System (SBPS)

Throughout the year, comprehensive capacity development trainings were conducted for the Budget Department officials who have to work with the DAD and SBPS. On the job training and support was provided for donor partners as well as for government officials to enhance the quality and accuracy of the data and reports. Joint meetings with UNAMA and donors were held to further improve the quality of the existing data in the DAD; review donors’ problem with the system; and receive comments for further improvement of the DAD. New mechanisms were developed to use the DAD as a more comprehensive aid management and reporting tool for the GoA and the civil society.

The 1388 mid-year budget revision and 1389/90 national budget reports and information were generated from SBPS for the first time. Further improvements, including the provincial budget breakdown for the external projects and the GoATashkil for the line ministries, were undertaken. Reporting facility and data entry were improved, such as reports required for DFR; provincial allocations reports for the legislative bodies; budget execution reports etc. With the support from the Treasury Department, the 1389/90 Charts of Account and budget execution forms were revised and adjusted into the FMIS.

Review of the BC I requirements and their integration into the SBPS were completed in 2010. The review included measures for generating the Medium Term Budget Framework reports and information required for Donor Financial Review through SBPS. Reviews were undertaken to evaluate the DAD performance, its functionality and user interference. Electronic filing system for the budget execution unit and enabling the system for archiving were developed.

For provision of better access to the budget and aid information, the Budget Department website (www.budgetmof.gov.af) was upgraded and planning for new mail server facility was initiated. Subsequently, an improved website with mail server that provides services in Dari & Pashtu languages has been procured. The improved system promotes regular update of all budget information and serves as an instrument to disseminate capacity development materials.

Business Plan Developed for the Budget Department

At the request of the Director General of Budget, the process of business plan development started in 2010 with oversight of the SAB/ASI project. The purpose of the exercise was to establish the performance indicators of each unit in the Budget Department; and identify and address the key challenges that the Budget Department encountered in meeting its objectives. The initiative was expected to clarify the roles and responsibilities of the staff, reduce duplication and overlapping of functions, while strengthening the capacity of the staff to deliver the priority results in a timely fashion.

The exercise mainly aimed at improving the core operations of the Budget Department in three areas: improvement of the budget process; review of the basic administrative and business processes; and establishment of a performance management system which includes an assessment not just of progress in implementation of key reforms but also how staff performs in discharging the respective

TORs. Mapping of all activities undertaken by the Budget Department was completed in 2010. The mapping was aligned with the business plan. Business plan review sessions and activities mapping were completed with the department's management team with technical support from SAB/ASI project.

The business plan generated is not a static document. The Budget Department laid out its aims and objectives for the next 18 months in the business plan, but the Department considers improvement of performance as a continuous process. The Department will revisit the plan annually and adjust where necessary.

Taking the above objectives into consideration, MBAW made enormous contribution to the development and improvement of the business plan document. Its actions included: development of the performance indicators for all units in the Budget Department; identification of the challenges and recommendations of realistic measures to develop and implement the business plans, the delivery of which was completed for 2010. The business plan aligned with the Ministry's Strategic plan and government of Afghanistan's commitments in both London and Kabul conferences in reforming its public financial management systems, aid management, aid coordination and effectiveness capacity.

III. Project Implementation

This chapter presents a brief on implementation of the project, focusing on a few critical issues, considered essential for project's success. The section briefly reviews how the project is functioning and helping to provide leadership and ownership to the government and promoting the government's ability to identify a) the issues that require attention and b) the changes that need be introduced for improved operation.

The government of Afghanistan has been encountering severe criticism from international partners and international financial institutions (i.e. WB, IMF, and ADB) for low budget execution, un-streamlined budget formulation system and inadequate financial management capacity at the national and sub-national levels. The Afghanistan government's response has been to centralize responsibilities in the Budget Department, for control and management of the most deficient areas. The Budget Department, thus, is tasked to establish a sound budget formulation mechanism and an accountable system, with related activities to be undertaken through the MBAW and other projects to fill the deficiency gaps.

MBAW worked closely with the General Department of Budget, its Fiscal Policy Unit and the Aid Management Department as the MBAW project's direct counterparts and also beneficiaries.

Partnerships

Alignment of aid with the national priorities, developing a sound budget formulation mechanism and developing capacity for budget execution at the national and sub-national levels, must be based on a strong partnership between the government and the international partners. This section provides indicators of functions undertaken for promotion of such partnership.

The Aid Management Department provides a platform where all the stakeholders- the line Ministries, Development Partners and other relevant parties consult and meet for dialogues to define the priorities, promote resource mobilization and speed up implementation. The AMD uses mechanisms such as that of Donor Cooperation Dialogues, Peer Reviews, and Development Cooperation Agreements as instruments to improve management of areas of most significance through consultative processes. Efforts are made to strengthen partnership through the High Level Committee on Aid Effectiveness (HLCAE), Program Budgeting Steering Committee, Budget Committee, and Cabinet support. Thus, the activities of the AMD (a unit of the Budget Department- the direct counterpart for the MBAW) have contributed to the success of the MBAW project, through strong efforts in effectively undertaking activities to help generate strong partnerships.

Afghanistan participated at some regional workshops and conferences organized by South-South partners on "Better Aid and Better Data". Paris Declaration survey and other instruments for

improving aid effectiveness and coordination within the government and with the international partners have been utilized for strengthening partnerships.

International financial institutions (i.e. IMF, ADB, World Bank) are regularly monitoring the performances of the budget department for delivery of the agreed benchmarks. These institutions provide timely and encouraging advice to promote performance and results.

The nature of work for program based budgeting requires close and regular communication with the line ministries and other counterparts. With an eye to the transitory support of TAs for program budget implementation, MBAW is making efforts to build the required capacity in line ministries in order that the civil servants can take the ownership of the program budgeting implementation soon, without external support.

Provincial budgeting and resource allocation have been coordinated with the sub-national planning and finance component of the UNDP ASGP project. Joint efforts of the projects have helped more than five provincial authorities to lead the provincial budget formulation and identification of provincial priorities.

National Ownership

This section will relate the indicators that reflect how MBAW and Budget department's cooperative work promotes ownership of planning, implementation and results by the government.

Rather than operating from any externally located office, MBAW functions from the Budget Department of the Ministry of Finance and operates from the space (or office) provided by the government, within the MoF premises.

The MBAW project, in close consultation and cooperation with the Budget Department of the MoF, developed several mechanisms related to budgeting and aid coordination all of which have been favorably assessed, approved and implemented by the government.

Because the government was not able to bring on board the required number and quality of civil servants due to the government's low pay scale and other administrative complexities, MBAW paid project staff to fill the departments' line positions that helped develop a sense of ownership in the MoF. Additionally, the government recruited the Budget Department's senior directors through the Management Capacity Program (MCP), a project financed by the World Bank, where the Director General of Budget is the decisive decision maker. Admittedly, such staffing practices are stop gap arrangements and at this point appear fiscally unsustainable. Increased domestic revenue is expected to eventually take over responsibility for paying all staff. Meanwhile, the civil servants within the Budget Department and at the ministry levels involved in planning, implementation and decision making in budget formulation and execution etc., are building up their capacities.

In order to uplift the capacity of the civil servants and make them capable to work independently, various types of training and orientation programs have been conducted which enabled the government civil servants to actively participate in the meetings and fruitfully contribute to consultations. The burden on MBAW project's human resource mobilization has somewhat decreased as a result of equipping the Budget Department with new technologies on the one hand and with "on the job training" of the civil servants, on the other. Launching of the new budget formulation/execution systems, SBPS (State Budget Planning System), and DAD (Donor Assistance Database), that are the main tools for the sustainability of an effective budget process, have relieved the staff of extra paper works, releasing time to devote on substantive and essential work activities, required to promote efficiency and effectiveness of the budget process and related activities.

Monitoring

Some monitoring information is presented in this section.

Monitoring missions from the UNDP assessed the project jointly with the government counterpart discussing an exit strategy which resulted in some decisions which are to be translated into actions.

Development Cooperation Dialogue (DCD) conducted twice a year recently proved to be an

exceptional exercise by the government as a good monitoring tool on the flows of aid and their effectiveness, which will help the government in the budget formulation process and alignment of budgets with ANDS programs priorities.

DAD is another instrument of monitoring thorough recording of aid data, with its results focusing on building strong cooperative ties between GoA& its development partners; enhancing mutual accountability and transparency; and assisting the Government in defining its spending priorities

Budget committee chaired by H.E. Minister of Finance and representatives from Ministry of Economy and Foreign Affairs and Head of Tashkeel from the Office of Administrative Affairs monitors the budget formulation processes on a monthly basis assisting the government with monitoring the performances of the line ministries on budget execution.

The legislative body (Parliament) has recently begun to examine the development budget execution process, which should lead to improved actions to be implemented by the budgetary units.

International Financial Institutions i.e., IMF, ADB and World Bank, regularly examine the Government's performances on the budget formulation, execution and accountability. Practical and proficient advice is provided by these institutions to strengthening the processes. Such advisories are translated into actions and normally achieve excellent results for better budget formulation, execution and accountability.

Regular progress reporting and developing monitoring tools proved to be effective for improving budget execution. Information on allotments and, expenditure status for programs are shared with the relevant program directors on bi-monthly basis to identify the constraints causing delays in project delivery. Monthly coordination meetings are held, chaired by Deputy Ministers. At these meetings, progress reports are presented and issues causing slow project implementation and budget execution are identified and actions are taken to overcome the hurdles.

The MBAW project team's monitoring undertakes regular monitoring to assess if outputs, based on the planned time line and the associated budget, were achieved. Reports indicate that most of the outputs (90%) were achieved, as planned for 2010.

IV. Challenges

Constraints and Risks

Political

The development budget is fully financed by the international community. Dependence on external finances impacts on the utilitarian and practical value of MTFB formulation and implementation as budget allocations are based often on political interests with fewer considerations to technical factors.

The budget ceiling binds the line ministries to prepare their budget within the given limit. However, most of the ministries and budgetary units fail to adhere to their budget limit. This threatens the Budget Department's credibility. Expectations are that development of the MTBF and budget ceilings policy paper and the development of ANDS financing mechanism will gradually overcome the challenges.

Due to controversies between the government and the parliament, the 1388/89 mid-term budget and 1389 national budget approvals were delayed by the parliament. In order not to delay the overall activities of the government in 1389, at the beginning of the fiscal year 1389, presidential decree (allowed by the Afghanistan Constitution) was obtained for execution of both operating and development budgets as per the 1388 allocations. The rejection by the parliament of the nominations of the ministers of the highest spending development budget ministries and the attention on the presidential and parliamentary elections in 2009 and 2010 resulted in low budget execution, the lowest compared to the previous years.

Security

Deteriorating security impacted on the budget execution targets for FY 1388/89, as most of the development activities could not be delivered on time. The provincial budgeting, as part of the budgeting reform process, could not be rolled out to most of the southern provinces. Some of the provinces-Kunar, Nooristan and Daikundi were trained by bringing the personnel to the nearest safe provinces. But this was attained at a high cost. Discussions are taking place at the Cabinet level to mitigate this risk.

Technical Capacity Constraint

Limited capacity in the line ministries poses severe challenges to the newly introduced reforms and initiatives. It is difficult for the line ministries with such level of capacity to absorb too many reforms and the initiatives aimed at improving effectiveness of public finances, within a short span of time

Lack of capacity in understanding of the norms of financial allocation and expenditure is the highest challenge for the GoA at the national and sub-national levels. This constraint resulted in the failure of the government, especially the line ministries, to link the budget planning with the ANDS and national priorities. Identifying qualified financial experts at the central level was hard, and at the provincial level finding expertise is even more challenging. MBAW took measures to develop sustainable capacity by providing on the job training to the government civil servants and finance and planning directors.

PFM Reforms

Centralized budget formulation and execution continue to pose challenges for rolling out of the provincial budgeting exercise at the sub-national level. Absence of knowledge of the provincial authorities about the budget planning practices of the central line ministries prevent the sub-national governance bodies to be part of any efficient and effective budget execution exercise. To address this challenge, awareness raising workshops and trainings are planned for 2011 to enable the provincial officials take part in national budget planning.

Aid Coordination

Since the development budget is almost 100% dependent on donor financing, lack of information on donor programs and lack of predictability of donors in making multiyear commitments and disbursements are practices that do not support sound government budget planning process. Development Cooperation Dialogue mechanism is expected to promote better alignment of donor funds with the national priorities and improved data collection from donors should mitigate this constraint. Improved cooperative dialogue among donors is sought in order to address this risk.

Issues

Human Resource (Recruitments)

The MBAW staff recruitments under UNDP contracts posed a number of issues for the project in early 2010. These included: i) the time required for recruitments could not meet project's immediate needs; ii) the UNDP contract holders, bound to UNDP security regulations, could not at times report to work which delayed operations; and iii) the nature of the core function of the Budget Department undertaken by MBAW staff was not aligned with the UNDP contracting practices.

With the aim to meet these constraints, a Letter of Agreement (LoA) was signed early in 2011 between the MOF and UNDP that enabled the Budget Department and the MBAW project management (placed with the MoF) to take control of the recruitment process that allowed government contracts to be given for all staff recruitment. While recruitments of more civil servants have been given priority to promote sustainable capacity and ensure timely delivery of the Budget Department activities, on the job training and other advanced capacity development and transfer of knowledge/skill training programs are also regularly provided.

Data Quality

Aid Management Department (AMD) provides analysis and policy recommendations to improve aid effectiveness to GoA officials. However, the poor quality of data received from the donors negatively impacts on the quality of AMD's work. To bring about improvement in the process, the Development Assistance Database (DAD) has been upgraded and launched online. Regular training is provided to the donor organizations to improve data recording. Various other training programs are designed to increase the analytic capacity of the donor and AMD staff for better aid delivery and utilization.

Provincial Budgeting

Centralized budget formulation mechanism by line ministries and lack of knowledge at the sub-national level of program design and budgeting, make monitoring of the progress of the provincial budgeting and initiation of further reforms difficult. In partnership with the World Bank (WB), the project piloted reforms for provincial budgeting, provincial resource allocation and for promoting ministries' capacity to operate better at the provincial levels.

Implementation of Budget Guidelines

One of the major issues in budgeting process is the "common-pool" problem where budgetary units want more and more share of the budget. Each and every agency requests for additional resources without considering their own size and capacity. The vague prioritization established and extremely rough cost estimation by line ministries requires the Budget Department to conduct thorough analysis which is time consuming. BC1 submissions reflect the inadequacies and weaknesses of information provided and thus the additional analysis and work required for proper assessment and fair budget appropriation.

VI. Lessons Learnt

Vital lessons were learned in 2010 which pressed for radical changes in the deliverables of the Budget Department. The lessons learned are listed as follows:

Budget Timetable

The delay in approval of the national budget by the parliament prevented early start of the budget execution. The budget timetable was thus squeezed and the budgetary tasks could not be completed within the given timeline. The Budget Timetable for the coming year will be more realistically designed to ensure completion of assigned tasks within the time allocated. Measures will be taken to brief the parliament before the submission of the final national budget.

Program Budgeting

In order to implement the new budget formulation mechanism as a policy tool rather than an IFI benchmark, a new strategic document outlining the importance and need for program budgeting has been developed. The new policy is approved by the council of ministers requiring all line ministries to present the 1390 budget by programs.

Provincial Budgeting

The provincial budgeting consultation and related intensive capacity development workshops started by mid 2010. The inputs received from the provincial authorities cannot be incorporated in the 1390's budget process. The provincial requirements will be accommodated in the budget calendar of the following budget year. Workshops will be held in the beginning of the 1390 to allow provincial departments' participation and inputs into the budget process.

Budget Execution

The conference (at the ministers' level) on budget performance for 1389 proved to be productive for enhancing budget execution rates. For instance, the budget execution rates for Education and Infrastructure sectors increased by more than 10% within a month. Such workshops and broader symposiums will be conducted in the future to gain more support from the top government officials. Focus will be made on practical working group exercises to develop the capacity of the participants.

Communication and Consultation

Communication strategy for the Budget Department and the MBAW project, as part of the budget information sharing mechanism, will be prioritized to enhance the effectiveness and efficiency of the budget formulation and execution.

The Budget Department gives full respect and response to any comments it receives from GoA Development Partners in order to get their full buy-in into the national processes and procedures and related documents. Development partners consider their own inputs into the government processes as important. Thus communication has been improving.

Budget Circular 1 Inadequacies

BC1 regulatory requirements were never considered by the line ministries as serious components of the budgeting practice. The prioritizations were left vague and the cost estimations were vague approximations, as well. Line ministries and budgetary units continued the practice of asking for higher levels of budget without appropriate justification. The BC1 formed the basis for ceiling calculation and lack of adherence to the requirements contained in the circular caused problems in the budget appropriation process. Proper awareness sessions are planned to impart the significance of Budget Circular -1 especially for allocation of funds.

Over Expenditure

The Budget Department encountered the overspending or over-expenditure issue in 1389 fiscal year. The line ministries requested to carry forward funds to the next fiscal year, without appropriately calculating the expendable capacity within the current year. This, in turn, caused over spending in the current year from which funds were asked to be carried forward prematurely. This problem can be eliminated by more accurate activities planning and associated budget planning annually and examining the expenditure every quarter against the planned expenses, before carry forward requests are made.

SBPS Improvements

The FMIS system proved handy this year. However, several lessons learned indicate the need for upgrading and reforms of the system to introduce flexibility.

New Budget Hearing Approach

The budget hearing for 1390 was focused on outputs and outcomes and based on programmatic hierarchy (Programs, Sub-programs etc.). Yet, approval of the operating budget remained to be a total figure, not divided into programs. The need is to distribute overall operating budget among “programs”. This is expected to be a time consuming exercise. The required time should be devoted in the budget calendar for addressing this issue.

Delays in Budget Approval

Delays in budget approval resulted in slow execution, despite alerts sent by the budget department to the line ministries instructing them to initiate their programming work. Based on this lesson, planning is in place for holding direct instruction sessions with the line ministries to initiate the preliminary work, in the event that that budget approval is delayed.

VI Future Plan

PFM and OG Operation

Public Financial Management Roadmap with the Operational Guide for Off-Budget would be the top priorities for the Budget Department and relevant units to implement, as components of the Kabul process. The PFM Roadmap and OG are medium term strategies for MoF to address the budget planning and execution challenges along with monitoring the aid effectiveness performance.

Pro-poor Budgeting Roll out to More Line Ministries

In 1390 two ministries (Ministry of Education and Ministry of Labor, Social affairs, Martyrs and disabled) entered the pilot phase of pro-poor budgeting. In the coming year, three other ministries will enter the pilot stage- Ministries of Public Health, Rural Rehabilitation and Development and Agriculture. Moreover the pro-poor budgets of the two pilot ministries are to be tracked and the resources allocated to implementation of the policy will be reported to the stakeholders.

Budget Circular -1 and Budget Circular -2

Budget Circulars (1 and 2) will be amended and strictly applied to ensure that the prioritization and cost estimation is done properly and accurately for the national budget. Based on these two instruments, realistic ceilings are to be calculated, which will also be based on the last year's performance of the ministries. Medium Term Budget Framework will be formulated to link the available resources with the priorities and expenditures of the requesting agencies.

Program Budget Presentation to the Parliament

FY 1391 budget will be presented to the Parliament in program format. However in 1390, most of the budgetary units are still in the preliminary phase of implementing Program Budget, yet to gain full knowledge of all the aspects of program budgeting and improve the quality of their program budget submissions. The Parliament also had to date only limited exposure to the program budgeting format and thus knowledge building of the parliamentarians on program budgeting is also required.

In view of the above inadequacies, the 1390 budget would be presented to the Parliament dually - in line item format for the purpose of budget appropriation and in program budget format for the purpose of greater transparency and budget scrutiny. This should provide a window for budgetary units to improve quality of their program budget documents and for the parliament to better understand information contained in the Program Budgets.

Program Budget Implementation Assessment

As the program budget reform is introduced in Afghanistan, based on IMF advice to the Afghan government, to date IMF had been undertaking assessment of the process. Since program budget is to be rolled out to all line ministries in 1390, a complete external assessment is considered required.

Re-submit Budget Integration to the Cabinet

Budget integration was not approved by the cabinet and postponed in 1390. Since this step is very critical in the program budget implementation process, the budget integration document should be re-submitted for approval.

Program Based Appropriation

The transition to program based appropriations can be seen as a final step of program budget reform implementation, which should guarantee greater accountability for results by line ministries and budgetary units of the Government. However, it is important that a full review of the reform should be conducted before any final shift to program based appropriation to ensure that the prerequisites for the transition are in place and tested.

VII. Financial Information

Making Budgets and Aid Work (MBAW) 56407

Financial Section:

Table 1. Total Income and Expenditure

Donor Description	INCOME					EXPENDITURES			BALANCE	Remarks
	Total Commitments (a)	Total Received (b)	Total Receivable c= (a-b)	unexpended balance received from projects (d)	Total Income available =e (c+d)	Total Cumulative Expenditures as of Dec 2009 (f)	2010 Expenditure (Jan to Dec) (g)	Total Expenditures =h (f+g)	Total Income minus total expenditure (i = e - h)	
UK-DFID	4,245,840	3,904,310	341,530		3,904,310	2,451,274	1,453,036	3,904,310	(0)	
CIDA	4,089,980	1,950,652	2,139,328	661,491	2,612,143	1,961,496	(1,307)	1,960,189	651,954	661K Received from GEP Project
GTZ-Germany			-	623,629	623,629	898,607	(275,008)	623,599	30	623K Received from MBAW Phase i
UNDP	2,362,980	2,362,980	-		2,362,980	871,753	1,491,227	2,362,980	(0)	
Total	10,698,800	8,217,942	2,480,857	1,285,120	9,503,063	6,183,130	2,667,948	8,851,079	651,984	

Note:

i) Income received/receivable in currency other than USD is approximated to USD based on UN exchange rate.

Table 2. Expenditure by Major Outputs (2010)

Project Output	Budget (AWP 2010)	2010 Expenditure (Jan to Dec)	Delivery Rate*	Remarks
Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	923,760	748,689		
GMS	37,097	36,383		
Sub-total Output 1	960,856	785,072	82%	
Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	396,638	259,320		
GMS	12,185	17,043		
Sub-total Output 2	408,823	276,363	68%	
Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	336,336	204,240		
GMS	12,725	13,352		
Sub-total Output 3	349,061	217,592	62%	
Output 4: Technical Assistance and Management Cost (Project Support Costs)	1,136,305	1,353,987		
GMS	47,362	34,935		
Sub-total Output 4	1,183,667	1,388,921	117%	
Grand Total	2,902,407	2,667,948	92%	

Note: *Delivery Rate = Cumulative 2010 expenditure/2010 AWP budget

Table 3. Expenditure by Donors (2010)

Donor	Project Output	Budget (AWP 2010)	2010 Expenditure (Jan to Dec)	Delivery Rate*
UK-DFID	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	455,760	483,371	106%
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	149,696	226,426	151%
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	156,336	177,395	113%
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	581,876	464,132	80%
GMS		109,368	101,713	
Grand Total		1,453,036	1,453,036	100%
CIDA	Output 4: Technical Assistance and Management Cost (Project Support Costs)	-	(1,307)	
GMS				
Grand Total		-	(1,307)	N/A

UNDP	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	468,000	472,348	106%
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	246,942	100,873	41%
	Output 3: Capacity Building (Implementation of Exit Strategy to build sustainable capacity within the GoA)	180,000	26,845	15%
	Output 4: Technical Assistance and Management Cost (Project Support Costs)	554,429	891,162	161%
GMS		-		
Grand Total		1,449,371	1,491,227	103%
GTZ	Output 1: Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)	-	(207,030)	
	Output 2: Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	-	(67,979)	
GMS		-		
Grand Total		-	(275,009)	

*Delivery rate

=

2010 cumulative expenditure/2010 AWP budget

2,902,407

2,667,948

Detailed Reporting on Results and Impact (Reporting on each output)

Activity Result	Baseline information	Performance Target	Description of results/achievement	% of progress rate/delivery
<p>Policy Support (The budget is comprehensive, policy-based, prepared in an orderly manner, and supportive of the national development strategy)</p>	<p>Baseline: 1) Medium Term Fiscal Framework (MTFF) and Medium Term Budget Framework revised in 2009 for the budget of 1389 and revised macroeconomic framework, 2) Program budgeting inline with ANDS programs (priorities) introduced in 21 line ministries by 1388, 3) Provincial budgeting introduced in 23 provinces, 4) More than 10 training workshops and orientations organized for provincial departments in 2009, 5) Budget execution rate target: 75% for 1388 (operation budget execution at 95%, development budget at 55%), 6) Budget allotment rate: 85% for 1388 (operating budget allotment at 100%, development budget at 75%), 7) Budget calendar timelines revised in 1388, 8) Ceilings provided to line ministries drawn from MTFF/MTBF, 9) Revenue forecasting model</p>	<p>Indicators: 1) Budget process adhered to budget calendar and medium term fiscal framework, 2) Timely conduct of Mid-Year review, budget hearings and submissions, 3) Number of ministries aligned their program structures with ANDS priorities and implemented program budget process, 4) Number of provinces participated in provincial resource allocations and prioritizing needs, 5) Number of provincial resource allocation trainings conducted, 6) Budget circulars and guidelines prepared, issued and adhered to, 7) Timely submission of national budget to the executive and legislature, 8) Budget execution rate targets achieved, 9) Number of budget execution reports produced and disseminated, 10) Pro-poor expenditure for selected ministries are tracked, 11)</p>	<p>1. Budget Calendar revised to adhere more the realistic budget process.</p> <p>2. The MTBF developed to provide the GOA with the medium term budget framework.</p> <p>3. Budget circulars 1 and 2 revised to further improve the budget planning processes and integrate the pro-poor and gender responsive budgeting requirements.</p> <p>4. 1389 MY Budget review conducted.</p> <p>5. Program Budget rolled out to 54 budgetary units.</p> <p>6. Provincial budgeting consultation exercise covered 10 provinces.</p> <p>7. Provincial budgeting capacity development practices implemented for 15 provinces.</p> <p>8. Provincial Budgeting norms development covered 4 provinces for Ministry of Education.</p>	<p>Delivered</p>

	developed	Budget execution procedures are simplified, 12) FMIS (DAD, SBPS & AFMIS) provides required reports	<p>9. Budget execution rate for 1389 reach to 40% and for operating budget by 95%.</p> <p>10. Budget execution reports shared on quarterly basis for the cabinet review.</p> <p>11. Budget execution forms and procedures further simplified.</p> <p>12. Fiscal bulletins published on quarterly basis to provide the fiscal envelop.</p> <p>13. OBI index rating improved to 21% by 2010 from 8% in 2008.</p>	
Aid Coordination and Effectiveness (Improved alignment and effectiveness of aid to support Afghanistan development goals and strategy)	Baseline: 1) 80% of aid delivered to the country is recorded in DAD, 2) 20% of development assistance channeled through the core budget by end of 2009, 3) three Bi-monthly High Level Committee Meetings on Aid Effectiveness (HLCAE) 4) Two rounds of DFR conducted in 2009, 5) one DFR report produced and disseminated, 6) Two rounds of joint portfolio review conducted with 4 major donors, 7) A monitoring of Good Principles for international Engagement in	2010 Target / Deliverables: 1) 6 HLCAE meetings conducted 2) Paris Declaration monitoring survey conducted, 3) DAD upgraded and further enhanced, 4) 90% of aid information recorded in DAD, 5) two rounds of DFR conducted, 6) DFR report published, 7) Action plan for the implementation of ANDS financing mechanism implemented 8) negotiations held with targeted number of donors	<p>1. 4 HLCAE organized to monitor the aid delivery and make aid more effective.</p> <p>2. Paris Declaration monitoring survey conducted and report is shared with OECD.</p> <p>3. DAD further upgraded and improved to enhance reporting on aid delivery.</p> <p>4. Development cooperation dialogue conducted to report on aid performances.</p> <p>5. Operational guide for off-budget developed to align external aid with</p>	Delivered.

	<p>Fragile States and Situation conducted and the report has been prepared, 8) ANDS Financing Mechanism with action plan has been drafted 9) Peer Review Mechanism has been piloted in two ministries (MoPH, MAIL), 10) Afghanistan is currently participating in the Evaluation of Paris Declaration on Aid Effectiveness.</p>		<p>ANDP priorities.</p> <p>6. Continued negotiations held with the development partners to support on budget financing and align aid with the national priorities.</p> <p>7. Aid Policy revised to enable the government on proper aid management.</p>	
<p>Capacity Development (Implementation of Exit Strategy to develop sustainable capacity within the GoA)</p>	<p>Baseline: 1) 21 young graduates were recruited on Budget Department Tashkeel by 1388, 2) Two formal training events conducted, 3) New graduates participated in provincial and program budget trainings, 4) Graduates are able to work independently and are assigned as focal points for relevant ministries, 5) Capacity Assessment methodology and work plan developed and approved</p>	<p>2010 Target/Deliverables: 1) 15 fresh graduates recruited under the new Pay & Grading Scheme on the Budget Department Tashkeel, 2) Capacity assessment of the BD conducted, 3) induction workshop for new civil servants conducted, 4) on-going on the job training and mentoring conducted, 5) study tour organized, 6) Streamline procedures for better service delivery (allotment procedures)</p>	<p>1. 10 new graduates transferred to the Budget Department Tashkeel positions.</p> <p>2. Continued capacity development and on the job trainings conducted for LMs and MoF staffs.</p> <p>3. Budget Department Organizational structure and TORs reviewed and revised to align with the international standards.</p> <p>4. FMIS (SBPS & DAD) further improved and upgraded to align with the national budget processes and external aid management.</p>	<p>Delivered</p>

RISK LOG

Project Title: Making Budgets and Aid Work	Award ID: 00056407	Date: 30 Dec 2010
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#	Description	Date Identified	Type	Impact & Probability	Countermeasures / Mngt response	Owner	Submitted, updated by	Last Update	Status
1	Low capacity is a concern across Sectors and within LMs.	Starting of the Project	Operational	This has an impact on goals and targets related to the formulation and execution of the national budget in general and provincial budgeting in particular. Technical skill is lacking at the LM and provincial level to correctly complete forms, and to develop proper project documents, especially in cases where multi-year budgeting is required. This is not only an issue for the implementation of Program Budgeting in specific, but to all reforms in general. The risk is increased when the LMs are required to absorb an abundance of reforms and initiatives when their capacity is too low. This issue is compounded by low salaries, bureaucracy and corrupt recruiting practices within the LMs. In response, BIRU is providing training programs to all budgetary	Gradual improvement in capacity through implementing the various capacity building interventions	Government of Afghanistan	Project Manager	30 Dec 2010	Reducing

				units.					
2	Last minute political decisions and changes have been delaying the budget approval process	Since 2007	Political	Resulting in a big rush to meet deadlines for approvals from the Cabinet and the Parliament	The budget ceilings are prepared well in advance and shared with the LMs.	Government of Afghanistan	Project Manager	30 Dec 2010	Reducing
3	Owing to non availability of feedback from line Ministries and Provinces on provincial budgeting processes.	Since starting the project	Operational	It has been very difficult to monitor the progress of its implementation. It has been a big problem to cover additional provinces.	In addition to Cabinet endorsement of the programme budget, involving senior management in the process is crucial for future commitment to the budget reform and the success of its implementation across Government	Government of Afghanistan	Project Manager	30 Dec 2010	Reducing
4	Many donors have not provided sufficient data on aid delivery, which includes pledges, commitments and disbursements	Since Starting the Project	Operational	Delay on the Budget Preparation	Many initiatives have been taken by the AMD to meet this challenge, such as - preparation of the regular Donor Financial and Bilateral Portfolio Reviews, intensified contact with donors to improve data quality and sending a letter to all donors urging to improve the	Donor community	Project Manager	30 Dec 2010	Reducing

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					process of data sharing.			
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ISSUES LOG						Date: 30 Dec 2010
Award ID: 00056407 - Project: Making Budget and Aid Work						
ID	Type	Date Identified	Description	Status/ Priority	Status Change Date	Author
1	Operational	2007	<p>Data Quality</p> <p>The Donor Assistance Database (DAD) historical data clean-up and report may take longer than anticipated. An additional issue is that donors are not entering data into the DAD online, and the DAD is unable to provide accurate and up to date information on Development Assistance.</p>	Medium	2010	AMD
2	Organizational	2010	<p>Human Resources</p> <p>Lack of relevant, professional staff slowed down the implementation of the budget and other activities. The inadequacy or unavailability of IT facilities, equipment and vehicles also delayed budget execution.</p>	Medium	2010	Project Management

3	Operational	2010	<p>Implementation of Budget Guidelines</p> <p>Demand for a greater share of the budget, known as the “common-pool” problem, is a major challenge to the budget process. Agencies request a greater share of the budget without regard to agency size and capacity. This forces BPU to conduct time-consuming analyses of cost estimates. BC1 submissions are a good illustration of this issue.</p> <p>Most LMs and budgetary units do not adhere to budget limits, regardless of imposed budget ceilings. This is an impediment to BPU’s ability to carry out its work, causing numerous problems and consuming a great amount of time.</p> <p>Regardless of a well-designed project, the project may not adhere to Ministry priorities, or realistic cost estimates. Prioritization and cost relevance of projects and/or programs, therefore, are often not acceptable.</p>	High	2010	Budget Department
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